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# **THE HISTORY OF THE GREAT AMERICAN FORTUNES**







**RUSSELL SAGE.**

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# HISTORY OF THE GREAT AMERICAN FORTUNES.

BY

**GUSTAVUS MYERS**

**AUTHOR OF "THE HISTORY OF TAMMANY HALL," "HISTORY OF  
PUBLIC FRANCHISES IN NEW YORK CITY," ETC.**

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**VOL. III.**

**GREAT FORTUNES FROM RAILROADS  
(CONTINUED)**



**CHICAGO  
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**PART III**

**THE GREAT FORTUNES FROM RAILROADS**

**(Continued)**





# HISTORY OF THE GREAT AMERICAN FORTUNES

## CHAPTER I

### AN INSERT ON THE SAGE FORTUNE

Russell Sage was mellow with experience when Gould was still in his verdant youth; years before Gould began his predacious career, Sage had the reputation among the knowing of being an old hand at political and financial corruption. Was this reputation justified? And did Sage garner his first millions by illicit methods? Certain of his biographers glide nimbly over these questions, while others tell their ready-made advocates' tale; how by his thrift and enterprise, his marvelous business astuteness, and his imposing array of other mercantile virtues and faculties he made his great fortune.<sup>1</sup> It would denote a lack of fidelity to these accounts were the word "sterling" omitted in connection with virtues; in the case of our multimillionaires virtues must necessarily be "sterling virtues." Were it not that the same stock phrases abound in all of these eulogies, they might provoke a gush of emotion, so touching are they, and often pathetic. But the moment the test of examination is applied they turn out to be sheer inventions.

<sup>1</sup> For example: See "America's Successful Men," Vol. i, containing a laudatory sketch of Sage.

In fact, all such works betray their own obvious worthlessness.

#### SAGE'S GREAT DEFECT.

One of the expected virtues, however, Sage grievously lacked, and it was by reason of this omission that he was the subject of gibes and harsh criticism throughout his life. So far as the methods that he used in getting together his millions went, he was not attacked; on the contrary, in his later years at any rate, he was represented as a very shrewd man who made his money by legitimate means. It was his niggardliness which proved the ground for his unpopularity. The severe economy preached as one of the great stepping stones to fortune, was condemned after the fortune had been acquired. A certain state of public mind or standard had been built up almost requiring that the millionaire should be a "good spender"; he should live sumptuously, blaze forth in glitter, and have some pet philanthropy.

Sage's recusant quality classified him as quite distinctive among the very rich men of his time. No self-indulgence for him, no extravagance, no expensive hobbies or splurges. He was a man who displeased his class and violated its canons; to such it seemed that he made wealth odious to the masses by declining to invest it with that generosity which, it was supposed, softened the popular hostility to the system allowing its accumulation.

Hence arose an undue rasping criticism of his personality. Nearly all of the millionaires of his day, after piling up their heaps, gloried in some costly conceit or resplendent show. None of this finery or foolery

for the crustaceous Sage. He spent just enough to allow himself a comfortable domicile on Fifth avenue, one of the thoroughfares of the rich in New York city; aside from this moderate expenditure, he was notoriously parsimonious; his very clothes were the jest of the country.

Had he yielded to the prevalent custom of buying the reputation of philanthropist and "benefactor of mankind" by impressive donations or endowments (to be recouped by further pillage) he would infallibly have been otherwise judged. He made no attempt, however, to propitiate harsh public opinion; be it said to his credit that he was unshakenly faithful to his sordid ideals; at no time did he curry praise or essay to conciliate by flinging out as a social bribe morsels to charity or philanthropy. Where his compeers (whatever their motives) confused or deceived the public estimate of them and their ways by distributing largess every now and then, he made no advances or pretensions; in the respect that he candidly idolized money, moralizing and sham almsgiving, cant and humbuggery were absent in his composition.

#### HIS CAREER AT THE START.

Sage was born of farmer folk in 1816 in Oneida County, New York, in an environment of poverty and cramping horizon. There is a paucity of information about his youthful days. We learn that as a boy his dominant yearning was for money, and that he developed a remarkable capacity for sharp trading. He clerked in his brother's grocery store at Troy, doubtless, we may reasonably surmise, learning all of the profitable little tricks of dealing with customers which an ef-

ficient clerk was taught, expected and paid to do; deceit was then, as it is now, the lever of all successful business. No doubt he carefully, ever so carefully, saved money, and so likewise did tens of thousands of other clerks — thrifty, ambitious striplings who put it away as they were beneficently advised. But the rule of thrift worked wrong-side in most of their cases; very few of them became rich, despite their sticking punctiliously to all of the regularly prescribed axioms. Plain it ever has been that thrift, temperance and hard work are not the recipe for getting rich, else many millions of people who have to work hard, and who are thrifty and temperate, would forthwith become so. The orthodox formulas did not produce riches, as Sage's fellow clerks found out. What, then, brought wealth to him?

"Long before down appeared on his chin he had gained a local reputation of being unusually keen at 'swapping.'" So wrote a eulogist whose description, slight though it be, gives a clue to Sage's methods in boyhood days. We are told that he amassed enough money to open a grocery store of his own, and that in 1839 he became a partner in a wholesale grocery establishment.

#### HE AND HIS PARTNERS CONCOCT A SWINDLE.

On September 12, 1851, Sage and two other Troy men formed a copartnership, under the name of Wheeler, Sage and Slocum, to carry on a general produce business at Troy, with a Western headquarters at Milwaukee, under the name of Wheeler and Company. This copartnership was signalized by a memorable swindle, which called forth one of the severest decisions and

denunciations ever handed down by the Supreme Court of the United States.<sup>2</sup> The firm deliberately concocted a plan to cheat the creditors of one of its bankrupt creditors in Milwaukee, and while it was engaged in this operation, Sage hoodwinked and cheated his own partners out of the proceeds of the swindle.

The facts as given in the statement of the case and the decision of the Supreme Court of the United States were as follows:

The firm became the owner of a large debt against against the bankrupt Sweet were begun in October, 1854, one Alanson Sweet of Milwaukee, a debt secured by a mortgage on valuable real estate. This real estate included a large warehouse, which Wheeler and Company had rented. Proceedings to foreclose the mortgage and a decree was passed by the Wisconsin courts in November, 1855. The Supreme Court's statement of the case went on to say that Wheeler, Sage and Slocum were desirous of getting a perfect title to the mortgaged premises, the value of which was \$50,000 when the mortgage was given. But other creditors had judgments against Sweet, and Sweet claimed the sum of \$12,000 due him from Wheeler and Company for three years' rent of the warehouse.

If Sweet put in this defence successfully, a perfect title could not be secured. It was necessary, also, to deceive and bluff the other creditors. In order to grasp the whole of the real estate, the court said, Wheeler, Sage and Slocum thought it necessary to purchase certain judgments, and make other arrangements by collusion. Sage informed Wheeler and Slocum that this

<sup>2</sup> See Wheeler vs. Sage, Wallace's Reports, Supreme Court of the United States, i: 518-531.

could be done by buying off Alexander Mitchell, who controlled Sweet's defence, for \$10,000. The court's statement continues:

Sage was authorized to perfect the agreement, and to charge Wheeler and Slocum their proportionate amount on the books of the firm. This agreement or a similar one, was made by Sage with Mitchell, and judgments purchased under it. *Without the knowledge of Wheeler, Sage, however, abandoned this agreement, and made one with Mitchell for his own benefit.* The mortgaged property was sold, and Mitchell became the purchaser, letting Sage have one-third interest on certain conditions; this being done, as alleged, in violation of the rights, and without the knowledge of Wheeler and Slocum. The mortgaged debt was fixed at \$24,000, two-thirds of which amount was paid over by Sage to Wheeler and Slocum, being, as he [Sage] said, the best that could be done, and which was accepted by Wheeler and Slocum on that hypothesis.<sup>3</sup>

#### SAGE SWINDLES HIS PARTNERS.

Yet, the court went on to relate, enough of the mortgaged property, as Wheeler found out and charged, had been sold to produce \$105,000, in addition to unsold property, valued at \$27,000, still in Mitchell's hands.<sup>4</sup>

On the usual legal ground that when a party obtains an advantage by fraud, he is to be regarded as trustee of the party defrauded and compelled to account, Wheeler brought suit against Sage. He sued to have Sage declared trustee for himself (Wheeler) for one-third of the mortgaged property still held and unsold by Mitchell, and for one-third of the proceeds of the property that had been sold.

The Supreme Court of the United States declared the whole transaction fraudulent; that while Wheeler, Sage

<sup>3</sup> Wallace's Reports, Supreme Court of the United States, i: 519.

<sup>4</sup> *Ibid.*

and Slocum had successfully conspired to cheat Sweet's numerous other creditors, Sage had tricked and cheated his own partners. They had set out to get by fraud real estate worth \$50,000 for \$30,000, and had authorized Sage to arrange the collusion. Sage had afterward relinquished the agreement with Mitchell, and had secured clandestinely an advantage to himself, "to the injury of the other parties."

In further stating the court's decision, Justice Davis continued:

The evidence in this case, consisting mainly of letters interchanged between Wheeler and Sage, shows clearly enough that a scheme was initiated to get title to the property, and that Sage was the active agent to perfect it, but for some unexplained reason it failed. . . . All parties rested in the belief that negotiations with Mitchell would be successful; but . . . Sage abandoned the idea of buying the property on joint account, and bargained with Mitchell in his own behalf. . . . The "Warehouse Case," as it is somewhere called in the record, is anything but creditable to the parties concerned, and it is surprising that they should have been willing to give it publicity through a legal proceeding. . . . The scheme was to get the real estate by depreciating its value through a process of entering judgment for a large nominal amount, and by deceiving and "bluffing off" other creditors. The court [in Wisconsin which passed the foreclosure decree] was imposed upon, and a combination formed, the object and direct tendency of which was to secure title to the valuable real estate of an insolvent debtor at the expense and sacrifice of his other creditors.

The court declined to pass judgment, one way or the other, on the ground that a party who had been engaged in an illegal transaction, could not expect redress, after being cheated, in any court of equity. "A proceeding like this is against good conscience and good morals, and cannot receive the sanction of a court of equity.

. . . . It is against the policy of the law to help either party in such controversies."<sup>5</sup> The effect of this decision was to leave Sage in possession of the proceeds of his swindling operation.

For seven years Sage held the offices of Alderman of Troy and of Treasurer of Rensselaer County. Now it is that we get the first clear penetration into the methods by which he gathered in his first notable amount of money. Not by trafficking in weights and measures was it, nor by petty swindling, but by a transaction in which as a public official he betrayed the city of Troy into selling to himself for a small sum a railroad line, which railroad he later, according to a prearranged plan, sold to the New York Central consolidation at a very large profit.

#### HOW SAGE OBTAINED HIS FIRST SWEEP OF WEALTH.

There is nothing vague or conjectural regarding this illuminating transaction; the facts are inscribed authentically in the public records.

In the years 1840-43, the city of Troy, at public expense, began to build a railroad running twenty-one miles from that city to Schenectady. The city of Troy, in 1837 and 1847, borrowed a total of \$650,000, and in 1840 the State of New York loaned Troy \$100,000, making \$750,000 in all for the construction and equipment of the Troy and Schenectady Railroad. It was a time when capitalists passively looked on, allowing many municipalities and some of the States to build publicly-owned railroads and operate them for a time, and then, after many millions of public money had been expended, capi-

<sup>5</sup> Wallace's Reports, Supreme Court of the United States, i: 530-531.

talists would contrive to take over the ownership unto themselves. This they did by depreciating and crippling railroads owned by the community, and by corrupting public officials to sell or lease them for comparatively insignificant sums. It was a favorite practice of the period, and was worked with great success.

The task of providing themselves with modern means of transportation frequently devolved upon communities, since no capitalist would take the initiative in any undertaking in which he did not see considerable immediate profits. The aim of the community was service; that of the capitalist, profit. Communities would never stop to consider whether a railroad would yield profit; the sole question guiding them was that of public need. The principle which made the people acquiescent in the loaning or donating of large sums of money to private railroad corporations was that railroads were a public necessity, whether publicly or privately built. In New York State alone, not to mention other States, the railroads originally received from cities, towns, villages and from the State, the sum of \$40,039,496.82 by donation or investment;<sup>6</sup> a very considerable amount it made at a time when a dollar had a much greater purchasing power than now. Of this sum, only about one-fourth part was paid back; at various times laws were corruptly passed releasing the railroad companies from liability for these debts. Every mile of those railroads is to-day absolutely owned, or practically so, by private interests.

As the greater number of railroads were owned by private corporations, it was not difficult for them to bankrupt publicly-owned railroads when they set out to do

<sup>6</sup> Railroad Investigation of the State of New York, 1879, Digitized by Google  
i: 238-243.

so. This they could easily do by diverting or obstructing freight and passenger traffic or by corrupting public officials to mismanage them. This conflict of public and private interest always resulted in the triumph of private interest; necessarily so because public welfare and private profits were an incongruous mixture, the one the antithesis of the other, and also because the governing officials were either of the propertied classes or responsive or subservient to them.

By these methods the campaign against the public ownership of the Troy and Schenectady Railroad was begun. Small detached railroads were anomalies at best; economic development demanded one of two solutions; either that they became merged in a great public, or in a great private, system. Disconnected, they were wasteful, inconvenient and unsystematic. This essential fact is fully borne in mind in stating the facts.

Among the railroad capitalists the movement for combination and cohesion commenced at about 1850. In New York State a combination of various bankers, land-owners and politicians concluded along in 1851 that it would be an excellent scheme to unite many of New York's separate little railroads into one centralized system. They were not prompted, it is true, by solicitude for the community; very far from it; the community to them signified a domain for spoils. Nor did they have any appreciation of the economic forces behind their project. Their one propelling idea was to buy up the small railroads for trifling sums and then organize a corporation and sell those railroads to the corporation at a tremendous profit. Nevertheless, in carrying forward the centralizing movement they did a necessary service to the community, however heavily the people have had to pay for it. The Troy and Schenectady Railroad was

agreed upon as one of the roads to be included in this combination.

#### A CITY BETRAYED AND PLUNDERED.

How was the city of Troy to be induced to sell its railroad to the clique of projectors? This was the problem. It did not perturb them long. Russell Sage undertook to carry through this portion of the bargain. He was at this time a leading member of the Troy Common Council, and was serving as one of Troy's directors in the managing of the Troy and Schenectady Railroad. His first move, it would appear, was to cause a steady mismanagement of the railroad's affairs so as to create dissatisfaction, if not disgust, with the continuance of public ownership and operation. Very deftly was his undermining and sapping work done—so deftly and by such surreptitious methods that no suspicion of his complicity was aroused. A public sentiment unfavorable to Troy's retention of the railroad was then adroitly worked up; public petitions praying for the sale of the unprofitable and unsatisfactory road began to flow in to the Common Council.

What did the Common Council now do? It appointed a committee to consider the question of selling; of this committee Sage was the most active member. So very active was he that the committee reported favoring the selling of the railroad. The proposition was, in fact, carried by one vote; it was Sage's vote which decided. Then, on January 24, 1853, another committee of the Common Council was appointed; its assigned function was to sell the stock, franchise and property of the railroad for not less than \$200,000. Who was it that also singularly happened to be the foremost member of this

second committee? The phenomenally industrious Alderman Sage. And when the railroad was finally sold, who was it that bought it? A company headed by Sage, and Sage it was who became its president.<sup>7</sup> Extraordinarily considerate were the terms of sale; \$50,000 was to be paid down, the remainder in fourteen years.

#### A LITTLE DISTRIBUTION OF \$8,000,000.

Quite a legitimate transaction, the apologist might say; according to the law, however, it constituted malfeasance in office; many an officeholder in various cities had been removed for less flagrant acts. It was recognized generally as a gross piece of corruption, but nothing was done to interfere with its success nor with the greater corruption that followed. Having, under form of law, grabbed the Troy and Schenectady Railroad, Sage sold it for \$900,000 or so to the group of capitalists forming the New York Central Railroad combination. Although but \$50,000 had been paid for it in cash, Sage and his associates disposed of it not only for the full value of its \$650,000 capital stock, but they also received in exchange a premium of twenty-five per cent. on that amount in New York Central bonds. In this formation of the New York Central, \$8,000,000 in bonds — all watered — were distributed as a bonus among the owners of the various railroads embraced in the consolidation;<sup>8</sup> no insignificant portion of the eight millions was Sage's share of the spoils.

<sup>7</sup> See *Investigation of the Railroads of the State of New York, 1879*, v: 28-58.

<sup>8</sup> The "Hepburn Committee" legislative investigation of 1879 went into the history of this stock watering operation. An account of the Troy transaction by F. W. Powell, entitled "Two Experiments in Public Ownership of Steam Railroads," appeared in the "Quarterly Journal of Economics," issue of November, 1908.

Whatever might be the later outcries of Troy's population over the merciless extortions of the New York Central Railroad, Sage was now heralded more of a "prominent citizen" than ever before, a citizen of exceeding worth, stability and standing. The glorious and patriotic occupation of politico-business man, with its radius of opportunities, had proved very lucrative. Yet the national capital, Sage concluded, held out much greater inducements. Accordingly, the corrupt Troy political ring, of which he was a leader, caused him to be elected to Congress; there he took his seat in December, 1853, and in 1854 was reëlected.

That was the era when act after act was passed granting money and land, either openly or by indirection, to railroad companies, and giving corrupt powers and privileges of all miscellaneous kinds to other corporations and to individual capitalists. In the one year of 1856, exclusive of other years, Congress passed at least thirty railroad land-grant acts for the benefit of as many separate railroad corporations — acts under which these railroad companies obtained the ownership of tens of millions of acres of public land. The corrupt means used to get these acts through proved one of the great scandals of the times, and led to the appointment of numerous Congressional and State legislative investigating committees. Few members of Congress and legislatures there were, as was abundantly shown, who did not take bribes either in money or in stocks and bonds.

If Sage was barely noticeable in Congress, and a tolerably complete blank in public life, he nevertheless all the more effectively and intimately cohered himself with many of these same rich railroad projects. The particular means whereby he did so are not ascertainable, but certain it is that when he left Congress he was found to

be a conspicuous "insider" of various of these land grant railroad corporations.

#### UNRESTRAINED FRAUD AND BRIBERY.

"He was called the father of railroad construction companies in Wisconsin and Minnesota," warbles a rhapsodizing writer,<sup>9</sup> apparently confident that the reference will redound to Sage's undying credit. What this eulogist prudently omits is an account of how these companies secured their charters and land grants.

The Minnesota and Northwestern Railroad Company was one of the railroad companies which obtained its charter and land during the very time Sage was in Congress; the act was passed to the accompaniment of charges of fraud and bribery. As regards this corporation, however, there is no documentary evidence connecting Sage with it. But it is worth while referring to it.

A select committee of the House was appointed on July 24, 1854, to investigate; and although the committee handed in an evasive, whitewashing report, the testimony given before it undoubtedly proved that somehow the wording of the act had been fraudulently changed in the House in the process of engrossing. These changes, according to J. Travis Rosser, secretary of the Territory of Minnesota, "gave millions of dollars" to the railroad company in question. As originally passed by the Senate, the bill had given the donation of land to the Territory of Minnesota, not to the company; as it finally read after becoming a law, the bill contained the fraudulent changes inserted in the House.<sup>10</sup> Robert W. Lowber, a stockholder, testified that arrangements had

<sup>9</sup> "America's Successful Men," i: 567.

<sup>10</sup> Reports of Committees, Thirty-third Congress, First Session, Vol. iii, Rep. No. 352: 30.

been made in the debate over the bill whereby the opposition of certain of its opponents was bought off, a statement which the incriminated denied.<sup>11</sup> The majority of another committee, appointed on July 10, 1854, to investigate charges of bribery reported: "The undersigned believe that it is clearly established by the testimony that money has been liberally used to secure the passage of bills, and they verily believe that much more evidence could be procured if time had been allowed the committee to make a more thorough investigation of the facts."<sup>12</sup>

#### THE ENTERPRISING FACTORY OWNERS.

This committee found that Samuel Colt, the founder of a fortune based upon the manufacture of firearms, paid out at least \$15,000 to Dickerson, his attorney and one of his lobbyists, to buy off the opposition in Congress to a bill extending Colt's patent rights, the time limit of which had expired. The testimony indicated

<sup>11</sup> Rep. No. 352, 1854:35. This act was later repealed. See Chapter ii. Lowber was, for a time, acting-president of this company. He was a notoriously corrupt New York city politician, and at that very time, was making considerable sums of money, by fraudulently selling land at exorbitant prices, to New York city. (See "The History of Tammany Hall," p. 216.) Lowber, on one of these occasions, corruptly sold land to the city of New York for \$196,000, which the Controller refused to pay on the ground that this sum was five or six times more than the land was worth. Lowber recovered judgment in the courts against the city, and when the Controller declined to satisfy it, was on the point of causing New York's City Hall, in 1858, to be sold at auction, when Mayor Tiemann halted the proceedings, and raised the necessary sum. As it was, the paintings and statuary in the City Hall were sold, and were bid in by Mayor Tiemann's secretary.

Other officers of the Minnesota and Northwestern Railroad Company were equally notorious New York lobbyists and corruptionists.

<sup>12</sup> Reports of Committees, Thirty-third Congress, First Session, Vol. iii, Report No. 352:35.

that about \$60,000 in all was spent in getting the bill passed. Another lobbyist, Jere Clemens, who also did the disbursing of Colt's bribe money, was, at the same time, as he admitted under oath, lobbying for various railroad corporations seeking land grants, and for a bill similar to Colt's which extended the patent rights of Cyrus H. McCormick,<sup>13</sup> a manufacturer of reaping machines, and the founder of a multimillionaire fortune.

And how other factory owners were bribing Congress to pass tariff acts was disclosed by the investigation of a select committee of the House, the majority of which committee reported that one firm in particular, Laurence, Stone and Company, of Boston and New York, owners of the large Middlesex Mills, and the equally large Bay State Mills, in Massachusetts, had expended \$87,000 in bribes to have the duties on raw woolen materials and dye stuffs reduced.<sup>14</sup> Failing to get from Congress, politically pledged to a low tariff, a high protective tariff on woolen goods, they set out to accomplish the same result by securing a reduction of customs duties on raw material. One of the lobbyists for this firm was A. R. Corbin, brother-in-law of Ulysses S. Grant, the same Corbin whom Gould later bought up in his gold manipulation. Corbin received \$1,000 in bribes from Laurence, Stone and Company, and he made no concealment of the fact that he had been regularly acting for the Illinois Central Railroad and other railroad corporations.

This was the time, it will be recalled, when Commodore Cornelius Vanderbilt, E. K. Collins, and other steamship capitalists were debauching Congress to get

<sup>13</sup> Rep. No. 352, etc., 20. It is deserving of note that Houghton includes both Colt and McCormick in his "Kings of Fortune, or the Triumphs and Achievements of Noble, Self-made Men," etc.

<sup>14</sup> Reports of Committees, First Session, Thirty-fifth Congress, Vol. iv, Report No. 414.

mail subsidies, and when Vanderbilt was blackmailing two Pacific steamship lines out of \$612,000 a year of the Government subsidy funds. It was also during these years that a House committee, after investigation, found that the enacting charter and the land grant of the Des Moines Navigation and Railroad Company were passed by bribery.<sup>15</sup> Obviously, judging from the reports of these various investigating committees, and from the much more significant circumstances calling for the appointment of those committees, Congress reeked with fraud and bribery, of which only slight oozings came to the surface; and we incidentally get, in passing along, a lucid insight into some of the methods of the founders of great fortunes based upon manufacturing industries.

Bribery, indeed, was so undeniably rife that as a sop to public feeling, one investigating committee after another was appointed to inquire into charges. While on this subject, digression will be made to deal with two scandals in particular which came up at this period. It is well worth while referring to these, first, because they additionally reveal the utter corruption carried on continuously at Washington by every section of the capitalist class, and second, because they disclose some of the methods by which one of the most lauded multimillionaire financiers and "philanthropists" in the United States built up his fortune.

This was William W. Corcoran, a Washington banker, who, after the Civil War, became reputed as one of the most substantial and respected financiers in the United States. During the decades when Gould and Sage were being hotly denounced for their frauds, Corcoran loomed up as a staid, conservative banker and a man of accredited most honorable past. He was the chief partner of

<sup>15</sup> See Chapter ix, Vol. ii of this work.

the banking firm of Corcoran and Riggs, and bequeathed \$2,000,000 for a splendid art gallery to the city of Washington, and he also established a home for decrepit old women.

#### A SIDEWISE GLANCE AT A NOTED PHILANTHROPIST.

Corcoran was another of the many capitalists who contrived to assume a coating of protective respectability. His methods, however, were of the same fraudulent nature as those of all the other successful money getters.

Evidences of what these methods intrinsically were came out in 1854; they made such a rumpus that the House of Representatives was compelled to undertake some investigation. According to the written and repeatedly made charges of Benjamin E. Green, a political figure of the period, Corcoran had extensively bribed public officials in order to make large sums of money out of the handling of United States funds and of speculation in them. Under the treaty of Guadalupe Hidalgo, the United States had agreed to pay Mexico a large indemnity for territory ceded after the Mexican War. Part of this sum was paid by 1850, but a considerable sum still remained to be settled. Mexico needed money badly, and proposed that the United States pay it directly to the Mexican Government without the intermediary of banking houses. Green charged that Corcoran bribed Thomas H. Bayly, chairman of the House Committee on Ways and Means, so to misrepresent Mexico's proposition and manipulate matters that the firm of Corcoran and Riggs should be made the middlemen in the transaction. "Bayly," charged Green, "held a control over all of the appropriation bills in most of which

Corcoran was directly or indirectly interested."<sup>16</sup> Corcoran thus obtained the handling of the indemnity funds, and made a profit of about \$500,000 from the transaction.<sup>17</sup> A select committee of the House of Representatives made a show of investigating the charges against Bayly, and reported on August 3, 1854, a case of "not proved."

#### THE GARDINER-MEARS SWINDLE.

At the very same time Corcoran was involved in another investigation by the House Committee on Judiciary—a committee many of the members of which were themselves corrupt politicians. The transaction which it was investigating under a resolution passed by the House on March 6, 1854, was the great swindle perpetrated by George H. Gardiner and John H. Mears upon the United States Government. By perjury, forged affidavits and bribery these two men obtained \$581,000 from the United States Government upon the representation that property of theirs had been destroyed in Mexico during the Mexican War. After the money had been appropriated, the facts as to the "astounding fraud" (as a House Committee termed it) came out publicly. Both the Senate and the House investigated the transaction; a Senate committee reported that the claims "were false and fictitious and the awards obtained upon forged and fabricated papers."<sup>18</sup>

<sup>16</sup> Reports of Committees, Thirty-third Congress, First Session, Vol. iii, Rep. No. 354:4.

<sup>17</sup> *Ibid.*

<sup>18</sup> U. S. Senate Report No. 182, 1854.

It was at this period that vast stretches of valuable land in the Southwest and the Pacific States were being obtained by forged documents and by the testimony of perjuring Mexicans. See Chapter ii, Vol. ii, and the chapter on the Elkins fortune in Vol. iii.

The people of the United States were wrought up over the disclosures of this bold swindle, and Congress was smitten with another of its spasms of virtuous curiosity. A resolution was passed calling for the recovery of the money paid out to Gardiner and Mears. But were these men the real beneficiaries? Who actually got the money? Who were the principals behind the fraud? These were points that had to be inquired into.

As the investigation unfolded it appeared that a group of bankers and politicians were the parties backing the fraud. Possibly they instigated it, although this general belief was not determined. The testimony showed, however, that when the forged affidavits were being prepared, money was urgently needed to carry the projected swindle to a successful conclusion. At this point Corcoran came forward. He loaned \$18,750 as funds for the promotion of the swindle, although he claimed, when the committee was investigating, that he did not know that this money was used to buy up testimony and otherwise complete the chain of fraud. But he admitted loaning this \$18,750 to Robert G. Corwin and Thomas Corwin, powerful politicians of the day; in return he received an assignment of the Gardiner claim as collateral security.<sup>19</sup> Thomas G. Corwin later was appointed United States Secretary of the Treasury, and it was by his order, under an act passed by Congress, that the money was paid out. Of the \$581,875 appropriated, the sum of \$321,562.50 was nominally in the name of Gardiner himself, and \$107,187.50 was awarded to Corcoran as the assignee of Gardiner. Both of these sums, however, were paid out to Corcoran and entered on the books of Corcoran and Riggs, and (so the report

<sup>19</sup> House Reports, Thirty-third Congress, First Session, Vol. iii, Report No. 369: 39.

has it) "credited to the parties interested."<sup>20</sup> Gardiner, while being prosecuted for perjury, committed suicide. The bankers and politicians, however, whose tools Gardiner and Mears were, did not, it is hardly necessary to say, have to face criminal trial or any other kind of trial, except a friendly and evasive investigation. So far as Corcoran's complicity was concerned, the committee exoneratingly whitewashed him, and relieved him from any legal responsibility.

It is probable that Sage learned many valuable lessons from his experience at Washington; Corcoran's particular kind of banking methods must have opened his eyes to possibilities. At any rate, already a millionaire, or nearly one, from the combination of business and politics, Sage now went into the banking business at Troy, and became a money lender and usurer on a large scale.

It was at this juncture that he turned up as one of the largest bondholders of the La Crosse and Milwaukee Railroad. He had become associated with this project at about the time he was in Congress, but the fact was not known until several years afterward, when he foreclosed. The eulogistic biographer in "America's Successful Men," treats Sage's connection with the La Crosse and Milwaukee Railroad in this light fashion: "The panic of 1857 found Mr. Sage a large creditor of

<sup>20</sup> Rep. No. 369, etc. It is pertinent to note here that Riggs, of the firm of Corcoran and Riggs, was accused, in 1868, of handling a corruption fund employed by the Russian Minister to the United States to secure the passage of a bill appropriating \$7,200,000 for the purchase of Alaska by the United States. The House Committee on Public Expenditures investigated. Riggs denied the charges. But inasmuch as the members of the Russian Legation, although requested to appear and explain, refused to do so, the Committee reported its investigation, "barren of affirmative or satisfactory negative results."—See Reports of Committees, Third Session, Fortieth Congress, 1868-69, Report No. 35.

the La Crosse Railroad. . . . To protect the loans he had made to the road he found himself compelled to advance yet larger sums, and later, through legal proceedings instituted to protect his investment, he became the owner of the road which afterward became a part of the Chicago, Milwaukee and St. Paul, of which Mr. Sage was at different times a director and vice president."

#### THE BRIBERY OF AN ENTIRE STATE.

This explanation reads very smoothly, but it omits a multitude of details both essential and enlightening. It can be said that at a period when bribery and fraud were so common as to cloy the popular mind, no transaction aroused a greater sensation or made a deeper impression upon a people jaded with continuous exposures of bribery, than the great thefts and briberies committed by the owners of the La Crosse and Milwaukee railroad.

This corporation had been chartered by the Wisconsin Legislature in 1852 to build a railroad crossing Wisconsin from Milwaukee on the eastern boundary, to La Crosse on the western. Two additional acts passed in the same year allowed it to consolidate with two other railroads running in different directions.

In June, 1856, Congress passed a bill granting to Wisconsin approximately 2,388,000 acres of public land in that State to be distributed among the railroads in Wisconsin. The enactment of this law was one of thirty distinct railroad land-grant acts passed in that one year. That they were put through by bribery was shown by the report of a House investigating committee which recommended the expulsion of four prominent Congressmen on the ground of their having been at the head of cor-

rupt combinations in Congress.<sup>21</sup> The La Crosse and Milwaukee Railroad Company thereupon lost no time in bribing (and all of the other land-grant railroads did the same in other States) the Legislature of Wisconsin to award a huge land grant. What followed the corrupt acts of Congress would doubtless never have been made public had it not been for the fact that another railroad company was sharply competing with the La Crosse and Milwaukee Company to get the major land grant from the Wisconsin Legislature. Beaten in the contest it revengefully raised charges that bribery had been used. The result was the appointment of a joint investigating committee by the two houses of the Wisconsin Legislature, and it is from their report, covering more than three hundred pages, and handed in on May 13, 1858, that the fullest details are obtainable.

This committee reported that in the construction of the La Crosse and Milwaukee Railroad nearly \$1,700,000 had been stolen by the directors up to 1856. One method was by making exorbitant contracts with themselves to construct their roads; another was by false construction charges; a third was by their buying property as individuals and then selling it to the company at exorbitant prices. These fraudulent methods were common among the directors of railroads throughout the United States. According to the findings of the committee, the La Crosse and Milwaukee Railroad directors, composed of Wall street bankers and New York politicians, had so plundered the stock, security and property of the company that it was reduced to a condition of bankruptcy. The plan was thus made imperative of getting a large land grant in order to rescue the company from

<sup>21</sup> Report of Select Committee appointed to Investigate Certain Alleged Corrupt Combinations of Members of Congress, Reports of Committees, 1856-57, Vol. iii, Report No. 245.

its condition, and save the directors from criminal prosecution for frauds and robbery. Sage did not figure among the directors at this time; his holdings, it appears, were in bonds not stocks; he remained in the background working through intermediaries.

\$800,000 IN BRIBES TO GET AN ACT PASSED.

To get this land grant, consisting of about 1,000,000 acres, the La Crosse and Milwaukee Railroad directors debauched not merely a few leading members of the Legislature, but virtually the whole Legislature, the Governor and other State officers, and a large number of editors of newspapers and politicians. It was this wholesale bribery of an entire State, joined with the general plunder, robbery and sundry swindling, that made so uncommonly deep an impression upon the public mind; the newspapers, which in general ordinarily gave scant space to accounts of bribery, opened up on this occasion, in evident appreciation of the nature of the scandal, and published long summaries, in some cases covering a page and a half in fine print, of the committee's report.

More than \$800,000 in bonds and money — but chiefly in bonds — had been paid out in bribes to insure the passage of the land-grant act of 1856, the committee reported. This was an underestimate. According to the report of the president of the La Crosse and Milwaukee Railroad Company to the stockholders, the passage of this act cost \$1,000,000 in bonds.<sup>22</sup> In his annual report for 1858 the president of the company bewailed the fact that the passage of the land-grant act had cost the company so much. He itemized the expenses incurred. The

<sup>22</sup> See "The Sixth Annual Report of the La Crosse and Milwaukee R. R. Company. New York, 1858": 16.

first was this brief but significant entry, "Construction bonds of 1862, issued for Charter Expenses, \$1,000,000." The second item enumerated in the list of expenses for getting the land grant was another \$1,000,000 spent in the purchase and consolation of the St. Croix and Lake Superior Railroad, which railroad was awarded 847,000 acres of public land.<sup>23</sup> A third entry was, "Stock issued for Charter Expenses at Madison [the capital of Wisconsin], \$90,000."<sup>24</sup> A fourth item was one of \$210,000 "for services" in getting a charter for a branch railroad called the Milwaukee and Watertown Railroad.<sup>25</sup>

Large as they were, these expenditures were trivial compared to the value of the land grants received. The annual report of the La Crosse and Milwaukee Railroad Company for 1857 contained a statement from the Wisconsin Land Commissioner setting forth that the areas granted were rich agricultural and timber lands, and valuing them at the sum of \$17,345,600.<sup>26</sup> Seventeen million dollars in return for a disbursement of several millions in bribes was not a bad business transaction.

#### "UNPARALLELED ACTS OF FRAUD AND PLUNDER."

But to revert to the report of the joint legislative committee of Wisconsin. It reported that for the passage of the land-grant act of 1856, \$175,000 in bonds were distributed among thirteen specified Senators, the individual bribes of whom ranged from \$10,000 to \$20,000; that \$355,000 in bonds had been given in bribes to sev-

<sup>23</sup> "Sixth Annual Rep., La Crosse and Milwaukee R. R." 16.

<sup>24</sup> *Ibid.*

<sup>25</sup> *Ibid.*

<sup>26</sup> "The Fifth Annual Report of the La Crosse and Milwaukee R. R. Co., 1857," 35 and 100.

enty specified Assemblymen—an average bribe of \$5,000—that \$50,000 in bonds were given as a bribe to Coles Bashford, Governor of Wisconsin, and \$16,000 to other State officials, and that \$246,000 had been variously paid out to certain specified editors and to other persons of influence.<sup>27</sup>

The committee reported that the bribers used a secret written code in order to conceal the evidence of bribery. This code, however, was revealed. The committee commented: "The bribery or 'buying up' a great majority of the Legislature of 1856, is discovered in the background as a tame fact, while the ingenuity displayed in the attempt to veil the transaction beyond the possibility of detection, is so supremely *unique* as to extort attention. The actors seem not to have been mindful of the fact, that no lid was ever large enough to completely cover up itself."<sup>28</sup>

<sup>27</sup> Report of the Joint Select Committee Appointed to Investigate Into Alleged Frauds and Corruption in the Disposition of the Land Grant by the Legislature of 1856 and for Other Purposes; Appendices to [Wisconsin] Senate and Assembly Journals, 1858.

<sup>28</sup> Ibid., 47. In Wisconsin, not less than in other States, large numbers of farmers were flagrantly robbed. The robbery of Nation, States, counties, municipalities and individuals proceeded at the same time.

Of the corruption and fraud in the case of the Milwaukee and Superior Railroad Company, an investigating committee reported that many of the farmers in Milwaukee County and other parts of Wisconsin had mortgaged their farms in order to raise money for the purchase of railroad stocks. These farmers "were anxious to aid in the construction of a road which they supposed would benefit themselves and the public generally." Many were Germans, "confiding, unsophisticated men." The committee continued: "A swarm of these vultures known as 'stock agents' were sent out amongst the people, and as the result shows, from the evidence herewith, many poor and worthy men have been robbed of their all, and unless some relief is extended to them in some way, will soon be deprived of their houses, if said mortgages are of any legal effect." . . . Report of Select Committee Appointed Under Resolution No. 128 Assembly, to Investigate the Affairs of the Milwaukee and Su-

"The evidence taken," the committee concluded, "establishes the fact that the La Crosse and Milwaukee Railroad Company have been guilty of numerous and unparalleled acts of mismanagement, gross violations of duty, fraud and plunder. In fact, corruption and wholesale plundering are common features."<sup>20</sup>

They were not merely common features of the railroad corporations in Wisconsin, but everywhere else in the United States; year after year they went on unhindered by legislative or Congressional investigations. The stolen rights and property, far from being forfeited, became strongly riveted vested rights; neither the bribers nor the bribed were troubled with criminal prosecution except very rarely, and then it was only the subordinate tools who were sent to prison. Every bribery scandal would be shortly followed by some new scandal; the old would die away or become forgotten, and the new would absorb public attention for a time, only to go through the same process.

Yet, under a noted decision of the Supreme Court of the United States, the principal, in every transaction coming within the law, was fully liable to punishment. In January, 1829, in a suit brought by the Government against Astor's American Fur Company, growing out of a seizure by General Tipton of liquors intended for debauching the Indians, that court had laid down this principle of law (Peter's Reports, II, 364): That whatever was done by an agent, in reference to the business in which he was at the time employed, and within the scope of his authority, was said and done by the principal, and might be proved in a criminal as well as a

perior Railroad Company, Appendix to Assembly Journal, Wisconsin: 10-11.

<sup>20</sup> Report of the Joint Select Committee, etc., Appendices to [Wisconsin] Senate and Assembly Journals, 1858: 47. Digitized by Google

civil case, in all respects as though the principal were the actor or speaker. This interpretation, however, was no more used against other capitalists than it was against Astor.

The great land grants received by the La Crosse and Milwaukee Railroad Company were not the only gifts in the legislative acts of 1856. As a corporation the company was forever exempted from taxes, and the lands granted were exempted from taxation for ten years—a sufficient time in which to strip them of their timber or sell them. Despite all of the legislative gifts, and additional very valuable donations by towns, counties and cities, the railroad had been so consummately pillaged of its money and resources, and so difficult was it to raise money in the panic of 1857, that it was forced into bankruptcy.<sup>30</sup>

Now it was, as his biographic limners express it, that Sage projected himself into the foreground to "protect his interests." How he did it they do not tell, but the court records of the time describe his methods with considerable plainness of speech if not clearness of explanation. It appeared that Sage had been all along

<sup>30</sup> In the testimony before the Wisconsin Joint Select Committee of 1858, Sage's name was not in any way brought out. It is, certain, however, that in 1857 Sage was a controlling owner of the La Crosse and Milwaukee Railroad. The investigating committee reported this testimony of Prentiss Dow, a stockholder:

"In August and September, 1857, rumors became very current in New York that vast frauds had been committed in the management of the affairs of the company; that the funds raised by the sale of subscriptions of land grant bonds had been applied to other purposes than building the road; that the 'statement' of the company was unreliable, as to the true condition of the company. Many of the holders of land grant bonds became alarmed and sales of them were made as low as twenty cents on the dollar."—(Appendix to Assembly Journal, Wisconsin, 1858, p. 165.) Perhaps Sage bought more of the bonds at this time.

using dummy directors and agents ; that is to say, he had put forward certain men who nominally were the owners and active spirits, while he, under cover, was actually the controlling owner and moving figure. This fact came out in numerous suits which were carried to the Supreme Court of the United States, and it is from the records of this august court that certain details are obtained.

#### FRAUDULENT BONDS AND FRAUDULENT SALE.

Sage was virtually the owner of a two million-dollar third mortgage issued to cover the eastern division of the La Crosse and Milwaukee Railroad, extending from Milwaukee to Portage City, or about half the breadth of Wisconsin. The Supreme Court of the United States set forth in its statement of the case in 1867 that for these \$2,000,000 in bonds, not more than \$280,000 had been paid in money. "Indeed," said the Court, "the actual amount is but a little over \$150,000."<sup>31</sup> By what the Court called "a fraudulent arrangement," intended to cheat the stockholders and the creditors of the road, this third mortgage was given precedence and the property was foreclosed. The Supreme Court records do not show how Sage got hold of his bonds, but they do spread out that the fraudulent bond issue was followed by a fraudulent foreclosure sale.

"Of the \$2,000,000 in bonds," the Court said, "only \$200,000 in money was paid. The remainder of the two millions was in the hands of either directors or under their control by a fraudulent arrangement." The Court denounced the foreclosure as a sale made by a fraudulent

<sup>31</sup> James vs. Railroad Company, Wallace's Reports, Supreme Court of the United States, vi:755.

notice in which the interested parties only knew what was about to happen.<sup>22</sup>

This foreclosed eastern division of the La Crosse and Milwaukee Railroad was reorganized as the Milwaukee and Minnesota Railroad Company, with Russell Sage as its president. The foreclosure had been applied for on August 17, 1857. It would seem, therefore, that Sage had become a heavy bondholder during, or immediately after, the very time when the acts were being bribed through Congress, and that he was one of the largest bond creditors at the identical time, or soon after, the La Crosse and Milwaukee Railroad Company had corrupted the entire State of Wisconsin with \$800,000 in bonds as bribes. But the precise date of his becoming connected with the railroad is not altogether clear in the records. After the foreclosure sale, some of the stockholders and many of the creditors, comprising firms which had supplied material for the construction of the railroad, objected to being cheated. A number of legal actions ensued; these were also carried to the Supreme Court of the United States, and from them additional facts can be gleaned.

#### A GENERAL ALL-ROUND SWINDLING.

One of these cases considered by this court in 1863 was that of several banking firms representing Sage, in an action against the La Crosse and Milwaukee Railroad Company, the purpose of which suit clearly was to swindle the stockholders and judgment creditors. On the face of the action, it was necessary that Sage's Milwaukee and Minnesota Railroad Company, as the successor in part of the original company, should make a

<sup>22</sup> Wallace's Reports, Supreme Court of the United States, vi: 755.

defence, but very curiously it made none. There was something very singular about this omission; what it was came out in the intervening application of defrauded stockholders. The records of the case of Bronson et al vs. The La Crosse and Milwaukee Railroad Company read:

After the time had expired within which the Milwaukee and Minnesota Railroad Company ought to have answered, but before an order had been entered taking the bill against them *pro confesso*, one J. S. Rockwell, a stockholder of the said company, presented to the court his petition, charging collusion between the complainants or their agents, and one Russell Sage, president of the said Milwaukee and Minnesota Railroad Company, to secure a foreclosure and sale in their cause; for the purpose of extinguishing the rights of the said Milwaukee and Minnesota Railroad Company, which was alleged to be the owner of the equity or redemption of the mortgaged premises; and that the president [Sage] of the last named company, although requested by its stockholders, had declined to make any defense in its cause.<sup>28</sup>

Obviously, for the scheme afoot was to so tangle up the affairs of the company in legal hocus pocus as to have a valid ground for absolutely cheating (or as the term went, "freezing out") the stockholders and judgment creditors. Four years later, as we have just noted, the Supreme Court of the United States found it so in deciding another case.

Rockwell was not the only stockholder charging collusion. Another stockholder, Fleming, presented a petition making a number of charges of which collusion was merely one. He also charged that the mortgage issued by the La Crosse and Milwaukee Railroad Company represented what was popularly known as "Corruption

<sup>28</sup> Wallace's Reports, Supreme Court of the United States, ii: 285-286.

Bonds" and was gotten up "for the corrupt and fraudulent purpose of disposing of said bonds, or a large part thereof, in payment of pretended debts to the officers and agents of said company, or their friends, without any consideration to be paid therefor." Also, "that a large part of said bonds were so disposed of and given away in fraud of its creditors."<sup>84</sup> The attorney for the complaining stockholders said in summing up the case: "Men placed to manage corporations for the interest of the stockholders manage them only for their own. They become contractors, half ruin the corporation, pay themselves with its assets at enormous discounts, then resuscitate things and are rich in the result."<sup>85</sup> The Supreme Court of the United States subsequently set aside the foreclosure sale on the ground that it was fraudulent, but Sage, by other means, succeeded in keeping his hold.

These are the authentic, exact legislative and court records. Entirely different are the facts they reveal from the phrase going the rounds of the press at Sage's death couched in this or similar language, "Perhaps the most noteworthy fact in the accumulation of Mr. Sage's fortune is the absence of graft." And likewise very different are they from the statements given in the ludicrous "histories" prepared by the railroad corporations themselves.

While Sage was foreclosing the eastern division of the La Crosse and Milwaukee Railroad, he was, at the same time, foreclosing, by reason of his holdings, another division which likewise became a part of the Chi-

<sup>84</sup> Wallace's Reports, etc., ii:287. This is one instance of many more such instances clearly revealing the real nature of the "ability" of the capitalists in "developing the resources of the country." "Ability" it was of its kind, and one wholly used for plunder and personal enrichment.

<sup>85</sup> *Ibid.*, 295.

cago, Milwaukee and St. Paul Railroad system. This other division was the Milwaukee and Horicon Railroad, which was part and parcel of the continuous corrupt transactions. The "historian" of the Chicago, Milwaukee and St. Paul system writes of the episode in this uninforming way: "The Milwaukee and Horicon Railroad, incorporated in 1852, was foreclosed by Washington Hunt and Russell Sage in 1863 and by them transferred to the Chicago, Milwaukee and St. Paul in June, 1863."<sup>28</sup>

The enormous frauds in Wisconsin were only a part of Sage's activities at this period. At the same time, he and his fellow capitalists were contiguously carrying through similar fraudulent operations in Minnesota. Were it not that occasionally they fell to quarreling over the spoils, and let out secrets in the civil courts, we should be at a loss to know the precise nature of their transactions. As it is, certain records of lawsuits survive to give a fairly clear index of their methods, and what these were will now be related in an expository outline.

<sup>28</sup> "Outline History of the Chicago, Milwaukee and St. Paul Railroad Company. Compiled by the General Passenger Department, 1888." 2.—The chief attorney for the various railroads merged in this system was Samuel J. Tilden, who later posed as so great a "reformer" in politics, and who was the Democratic nominee for President of the United States in 1876. It will be continuously observed that the men nominated by both political parties for high office, executive, legislative and judicial, were invariably those who had proved their usefulness as tools, retainers or beneficiaries of the corporate interests. Witness Garfield and Blaine, implicated in the Credit Mobilier swindle, Morton and many others.

## CHAPTER II

### MORE DETAILS OF THE SAGE FORTUNE

In the preceding chapter we have seen how, by corruption and fraud, Congress, in 1854, passed an act the wording of which was so surreptitiously altered as to give nearly nine hundred thousand acres of public land in Minnesota direct to the Minnesota and Northwestern Railroad company. Composed of a combination of Eastern and Western capitalists, lobbyists and politicians, this company proceeded to regale the country with sonorous prospectuses of the great things that it intended to do in developing the wilderness of the Northwest. Could the nation doubt the veracity and noble intentions of its charterers, all solid men of capital? Was the good faith of its projectors, headed by that eminent capitalist, Erastus Corning, of Albany, New York, to be questioned? For once the sweet song failed to charm the public, which rose in angry protest against the corruption used, and Congress hastily backslid and repealed the act.<sup>1</sup>

<sup>1</sup> Notwithstanding its repeal, the Minnesota and Northwestern Railroad Company influenced the United States District Attorney for Minnesota to bring a trumped-up suit in order to get a favorable court decision on the validity of its title. That official was summarily dismissed from office by President Pierce when the facts became known.—House Executive Documents, Thirty-third Congress, Second Session, 1854-55, Vol. v, Doc. No. 35.

It was not often that Congress repealed such corrupt acts; when it did so, astonishment was general.

#### GIFTS OF FOURTEEN MILLION ACRES.

But the good behavior of Congress was of the briefest duration; a mere ebullition serving duty as something with which to blind the nation. The milling of land-grant bills went on busily; the repealing of that one particular act produced an effect which distracted public attention and which allowed the unscrutinized passage of many other acts. Among these were measures giving six millions of acres of public lands—eventually to expand into fourteen millions in all—to the Territory of Minnesota (soon to become a State) for the benefit of railroad corporations. The proprieties of the usual form of procedure were now scrupulously observed; the lands were donated to the individual States, to be granted by them to railroad companies. Congress had learned its lesson of the necessity of sticking to outward forms; henceforth in the case of State grants the bribery had to be dually done, part at Washington and part at the various State capitals.

During the session of 1857 a modest little bill went gurgling through, tranquilly making the rounds of the committees and becoming a law. At that precise time many another act was being dragged out to daylight as having been passed by bribery, but this especial bill wended its way unobtrusively, entirely shielded from the searching blaze of publicity. It was an act incorporating the Minnesota and Pacific Railway Company to build a line from St. Paul to St. Anthony's Falls (now the city of Minneapolis) and authorizing various extensions in different directions.

The second part of the program was as successfully accomplished as the first. The Minnesota Legislature was applied to for the wherewithal to carry this enterprising project into execution, and most generously did it respond. Sundry legislative acts gave to the railroad company a grant of ten sections to the mile, six hundred and forty acres to the section, the title to successive grants to vest in the company as fast as every twenty miles were completed. But these were not the only benefactions. In dulcet appeals the company informed the citizens of the State that it needed cash also. Many of these aforesaid citizens, hardy pioneers with a rough way of looking at affairs, were not overcome with emotion at reading these tender appeals. They thought that the land grant was quite enough of an encouragement. But the Minnesota Legislature "during the corrupt administration of Governor Sibley,"—as contemporary writers in Minnesota put it—was of an extremely susceptible nature, incapable of refusing a request.<sup>2</sup> An act was passed authorizing a \$5,000,000 issue of bonds—called the "Minnesota State Railroad Bonds"—to be handed over to the railroad companies in that State. Not all of this amount was issued; the total sum turned over to the railroad companies under this special act was about \$2,750,000. Large additional sums of money were then contributed by counties and municipalities, and a "smart business" was done in persuading farmers and merchants to invest their money in the railroad.

Whose master mind was behind all of this? Russell

<sup>2</sup> Legislative corruption was almost continuous. "The numerous charters," complained Governor W. A. Gorman to the Minnesota Legislature, in 1856, "already granted in Minnesota for ferries, lumbering, manufacturing, mining, etc., is enough to arouse your vigilance on this subject." Many of those charters," he pointed out, "must become sources of immense revenue to the corporators."— Minnesota Council Journal, 1856: 91.

Sage's. Rarely did he appear too prominently in the foreground, but he was the soft-treading man who, as was later revealed, chiefly profited from the transactions of the Minnesota and Pacific Railroad Company. After getting the charter, franchises, rights, land grants, funds and exemptions what did he and his partners next do? Valiantly and seductively had they argued for inducements enough to make it possible for them to open up the primitive Northwest. But the moment that the primary object was obtained of securing these diverse "inducements," talk ceased and the work of filling their capacious pockets began with a grim and silent earnestness.

First, in the order of the day, came the customary freebooting organization of a construction company, composed of the identical men in the railroad corporation. They made contracts with themselves calling for exorbitant payments; and then, in addition to these great cribbings, they fraudulently awarded themselves bonds in return for pretended services. Along with these embezzlements they placidly set about to cheat the small bondholders and stockholders, and to fleece the creditors who furnished them with necessary supplies and equipment.

#### ROBBED INTO INSOLVENCY.

The thefts were carried on with such rapid assiduity that in about a year after the company had been chartered, its treasury had become a vacancy, and the railroad was plunged into insolvency and, in 1858, foreclosed. Who bought it in? The selfsame men who had looted it; as the chiefs of the construction company they had taken care to fortify themselves with enough bonds to put them in the legal position of ma-

jority creditors. Some of them, such as Sage, did their work generally through dummies; others appeared in the open. They might complain, as they did, that the cause of the company's failure was the difficulty in raising money during the panic of 1857; but this was a flimsy, although plausible, excuse.

Presently a unique development turned up. They caused the railroad corporation to be dubbed with two new names; by an act slipped through the Minnesota Legislature, the Minnesota and Pacific Railroad Company was reorganized into two divisions, one called the St. Paul and Pacific, the other the First Division of the St. Paul and Pacific Railroad Company.

Why these separate titles for a single railroad project? Why this confusing arrangement? The reason became obvious a little later. It was an adroit artifice to entrench them in a strong legal vantage to loot and bankrupt the road still further; the same coterie, in reality, directed both companies, and as constructors of a railroad which they themselves directed, they could hand over to themselves bonds making them unassailable creditors of the whole line. An astute piece of ingenuity; whose was the deft brain that conceived the device? It was that of the "great reformer," that evangel of "pure and uncorrupted Democracy"—Samuel J. Tilden. He wove his legal tangles so well, so very, very well, that the small bondholders and the manufacturers who had furnished materials, found themselves before long entirely cheated out of their claims, and with no chance of legal redress.

One of these bondholders, Edward C. Hopkins, with a wonderful trust in the equity of law, bestirred himself to see whether he could not collect on some coupons of bonds that he owned of the old Minnesota and Pacific

Railroad. Was not the St. Paul and Pacific, he claimed, the successor of the original company, and thereby bound to respect, and pay, its debts? Was it not a case of an old corporation acting under a new name? The case came up for trial at St. Paul in the United States Circuit Court. The eminent and erudite judge was John F. Dillon — the very Dillon, fittingly enough, who subsequently left the bench to become pleader for corporations in which Gould and Sage were the principal directing spirits.

Judge Dillon handed down some choice bolts of law which served sufficient notice on other small fry of creditors as to what they could expect. The scope of his decision was superbly direct; he held that when the Legislature of Minnesota changed the name of the company in 1862 it created an entirely new corporation which could not be held responsible for the debts of the old. Hopkins' suit was ejected from the court, and both he and the other creditors were left to ponder in unbroken leisure upon the mysterious beauties of the law.<sup>8</sup>

But if the company had a new name — or, rather, two new names — it retained all of the franchises, privileges and immunities of the old corporation — so ran the decision. From its debts it was relieved; in all its assets and possessions it was secured. There was the great and important point; names were but a serviceable mask under cover of which the "insiders" could defraud the lesser capitalists. To note the plaintive squeaks of these outraged victims was a lesson of itself — they who were only too eager to share in the fruits of the bribing of public bodies, the wrestling of public resources and the general despoilation of a whole people. Their fine

<sup>8</sup> Edward C. Hopkins vs. St. Paul and Pacific Railroad Company, Dillon's Circuit Court Reports, 1871-73, ii: 396-398.

moral instincts were quickened only when they were defrauded, and then their virtuous indignation was unbounded.

#### HUGE SUBSIDIES STOLEN.

While the projectors were cheating out this crowd of dupes what were they doing with the huge subsidies that they had received in one form or another with which to build the railroad? The money had certainly vanished. Where? Little of railroad construction was there to show for the alleged expenditure except some hundred miles of graded prairie. Even the short stretch of ten miles of main line from St. Paul to Minneapolis had not been put into operation by 1862 as required by law. Why not? The rapidity with which such fortunes as Sage's were being amassed was the answer. The money was stolen.

When the professional corrupters who had looted this railroad had originally applied to Congress and to Minnesota for gifts of land and money, they had represented themselves as capitalists having "ample resources" with which to carry on the project. All that they needed, was their plea, was State encouragement in some form, because "the undertaking was so expensive." After they had robbed the railroad into bankruptcy, a special committee of the Minnesota Senate began to investigate their antecedents and methods. "The sequel," it reported, "demonstrated that the companies had no cash capital at command, and scarcely credit sufficient to insure prompt location of their lines of road."<sup>4</sup> The committee went on:

<sup>4</sup> Report of Special Committee on Railroads and Railroad Grants. February 3, 1860, Minnesota Senate Journal, 1859-60: 343.

So far as your committee can discover, the companies, since the passage of the loan amendment, have not furnished one dollar of capital to aid in carrying on their gigantic enterprise. They have sold and hypothecated large portions of these bonds at a ruinous discount. They have paid extravagant salaries to incompetent or inefficient officers. With the exception of about fifty miles of well-built superstructure—complete, fragmentary and disjointed portions of grading, costing on the average less than three thousand dollars per mile—are all that these companies can show in return for the munificent issue of bonds made to them by the State.<sup>5</sup>

A vivid picture this gives of the original "constructive ability" of the capitalists—an ability conspicuously displayed in perpetrating the most enormous frauds. But where in the United States was it not likewise so?

The successive events now following in the history of this company are dryly incorporated in the records of the case of John S. Kennedy and Company vs. the St. Paul and Pacific Railroad Company, including the First Division, the Northern Pacific Railroad Company, Russell Sage, Samuel J. Tilden, et al.<sup>6</sup> Although the full details are not by any means spread out in these records, some authentic particulars can, at any rate, be gleaned.

By 1871 Sage and his associates had completed certain of the railroad extensions, and had mortgaged them for a total of \$13,380,000. Nearly all of this money had been advanced by banking houses in Holland. But sixty miles of main line were still in an uncompleted state, and the people of the State were getting dangerously curious to know why. Millions of dollars had disappeared; all of the gifts in land and money made to the company had been sunk thus far in building only some disconnected and semi-worthless sections of the projected rail-

<sup>5</sup> Minnesota Senate Journal, 1859-60: 344.

<sup>6</sup> Dillon's Circuit Court Reports, 1871-73, ii: 448-527.

road. The directors had to make a move; they did so by evolving a new scheme for bleeding the too eager and credulous Holland capitalists.

#### DUTCH CAPITALISTS SWINDLED.

And this is what they did: A group of men comprising the First Division of the St. Paul and Pacific, corporatively met and issued bonds for \$15,000,000. The same men, or their tools, then met as directors of the St. Paul and Pacific (it is hard to keep these fine distinctions in mind) and mortgaged the rights, franchises, and property, including the land grants, to the First Division for ninety-nine years. Then the First Division corporation, as construction company, bound itself to complete the railroad extensions before March 1, 1873, on which date, by a recent legislative enactment, the land grant was to be forfeited in case the extensions were not built.

The terms of the mortgage were explicit and enticing. The whole of the \$15,000,000 was to be applied to building the extensions. On the strength of this agreement about \$8,000,000 more was raised in Holland in 1871. But there was one bit of information the Sage clique carefully kept from the Holland capitalists. They did not tell the Hollanders that a large part of the money raised was to be applied to the main line, in violation of the express terms of the mortgage.<sup>7</sup>

What was done with the \$8,000,000 raised in Holland? This sum, which the borrowers swore on solemn oath to

<sup>7</sup> In its dry terminology the Court expressed the fact thus: "But this part of the scheme as contemplated a diversion of a portion of said proceeds to the main line not being made public or announced to the persons who subsequently purchased said bonds." Dillon, v: 459.

the Hollanders, was to be used entirely for constructing the extension lines, was immediately distributed in various plundering ways. About \$3,000,000 of it was fraudulently diverted to the completion of the main line; large sums were grabbed to pay interest on the main line mortgage bonds, and other millions were used for what? For the purchase of iron material and the payment of contractors for work on the extension line. And who sold the iron? The First Division Company. The operation was simple; Sage, etc., sold to themselves the rails, and charged the account against the money advanced by the Dutch capitalists.<sup>8</sup>

Those were, indeed, halcyon times of bold graft; the robbery was so large and openhanded that naturally enough the First Division, the treasury of which was sacked as fast as it was filled, went into insolvency in 1872. In less than a year more than \$8,000,000 had been "scattered"; we should say, concentrated, for the great bulk of it went into the pockets of a few, and remained there. Nor was this all. When the First Division suspended work in October, 1872, it owed its contractors—subordinate firms who really did the constructing work—about \$700,000, although it later reduced this debt to \$500,000 by paying part in supplies of iron. It also heaved under large floating debts, and its interest coupons were under protest.

#### THEY APPEAL TO COURT.

Tricked and stripped, the Dutch capitalists now fully realized their predicament; the money that they had skinned from native peoples at home, had been plucked from them. How could they recover it? They took the

<sup>8</sup> Dillon's Circuit Court Reports, 1879-80, v: 451-459.

only step that they could possibly take, which was to apply for a receiver. Hence the suit brought by John S. Kennedy and Company, acting for them and for other bondholders. In cold legal phraseology they set forth their plaint; they had been lied to and defrauded. "They [the bondholders] also claim," reads the formal court statement, "that by reason of the insolvency of said First Division Company, and of various fraudulent and improper acts of its managing officers — which are not here recited because the court does not deem it material to the real merits of the application — that a receiver should be appointed," etc., etc.<sup>9</sup>

Judge Dillon concurred that a receiver should be appointed. Urgent reasons, he said, compelled it. The company had a great land grant valued at \$6 an acre; and this was the only adequate security for the \$15,000,000 mortgage. But it happened that these lands, or a large part of them, were to be forfeited if certain extensions were not completed by a certain time. It was imperative, Dillon said, to save that land grant, and as the directors of the road admitted that there was no money in the treasury, it was to the best interests of the bondholders to have a receiver appointed. The receiver would have authority to complete the extensions. Dillon, thereupon, on September 1, 1875, appointed one Jesse P. Farley as receiver.

The next developments were revealed in the second suit of John S. Kennedy and Company against the St. Paul and Pacific Railroad.<sup>10</sup>

<sup>9</sup> Dillon's Circuit Court Reports, 1879-80, v: 451-459.

<sup>10</sup> Dillon's Circuit Court Reports, 1879-80, v: 519-536. Kennedy, however, betrayed the interests of the Dutch stockholders, colluded with the receiver, and made a fraudulent arrangement by which he (Kennedy) profited enormously. Kennedy thus obtained many of the millions, the donation of some of

Farley, it seems, made a great ado about the constructing work he was doing, but as a matter of fact, he spent only about \$100,000 in the work of constructing and repair.<sup>11</sup> However, he kept up the pretense enough to save for a time that part of the land grant threatened with forfeiture. But by 1878 the people of Minnesota were again ablaze. Twenty-one years had passed since the company had been chartered; it had received vast subsidies in money and land not only from the National Government, the State, cities and counties, but from individuals. All along its route, both completed and projected, farmers and merchants had subscribed for its stock, only, they found, to hold worthless bits of paper which produced neither railroad nor returns. The company had looted itself twice into insolvency; it had, by repeated sleight-of-hand process, defrauded not only native capitalists, farmers and merchants, but it had done away with the many millions poured in by the Dutch capitalists.

#### THE LEGISLATURE WAKES UP.

Now it was still deep in bankruptcy. The Legislature could not hold out against this overwhelming expression of popular indignation. On March 9, 1878, it passed an act declaring that unless a specified number of miles should be built by certain dates, then the uncompleted portions, together with the land grants, rights, franchises, immunities and appertaining property "shall at once be and become absolutely forfeited to the State of Minnesota, without any act or ceremony whatsoever."<sup>12</sup>

which later enabled him to blossom out as a "great philanthropist." See the chapter on the Hill fortune.

<sup>11</sup> Dillon's Circuit Court Reports, 1879-80, v: 519-536.

<sup>12</sup> Minnesota Special Laws, 1878: 344.

It was a drastic law, and some action had to be taken at once, if the State was to be thwarted. Who would furnish the money necessary to build the uncompleted sections, and thus prevent the forfeiture of franchises and land grants? Sage and others, after getting out of the road all the plunder that they could see in sight, had retired to use the proceeds of that piracy in repeating their transactions in other directions. The railroad itself was in a deplorably bad shape, thoroughly disorganized, and very dangerous to travel on. It had little equipment and few stations or depots worth considering. This was the "splendid railroad system" that Sage and his clique were to build; this was the result of their "vast constructive ability!" How much Sage took out of the project in spoils we are unable to say; there is no record stating the sum either absolutely or approximately; it amounted, most certainly, to many millions of dollars.

With forfeiture of much of the possessions and many of the rights of the railroad in imminent danger, four men, who became noteworthy among the great capitalists of our time, stepped forward to get control of the St. Paul and Pacific system. These were James J. Hill, except the "Jay Gould of the Northwest," and three other Canadians, two of whom attained elevation to the British peerage. How they secured control, and what they did thereafter, forms a story not connected with the Sage fortune; it will be found in full in the chapter on the Hill fortune.

Meanwhile Sage had met Gould in Troy, and had removed to New York city. "The two men," says the effusive biographer heretofore quoted, "made an impression upon each other, which afterward deepened into a



**JAMES J. HILL,**  
**The Railroad Magnate of Minnesota.**



friendship famous in financial history." Famous or infamous whichever way you prefer to view it. A valuable working pair the twain made; Sage, crafty, somber and reclusive; Gould supplying the public audacity; both equal in inscrutable wiles and stratagems. The one overcautious, the other overreckless, each counterbalancing the other. A prodigious respect Gould learned to entertain for Sage; the one associate was Sage whom Gould could not overreach or fleece.

Subsequently and appropriately enough, Sage hied himself to New York city early in the course of the Civil War. There, in Wall street, was the headquarters of many of the railroad corporations which had been, and were, bribing and plundering. The office of the LaCrosse and Milwaukee Railroad Company, for instance, was there; whoever might be the actual physical builders of the railroads, the owners were either Wall street men or kindred capitalists—men who by some species of fraud or theft had pushed themselves into control.

And there also in New York was the scene of the greatest activity in the current widespread despoilation; from there radiated the plans and plots which later resolved themselves into colossal swindles. Had the center of this deviltry been elsewhere, there Sage and all the others of the brood indubitably would have flown.

#### STOLEN MILLIONS LOANED IN USURY.

A money lender on a great scale Sage became; he invented a special system of usury—the "put" and "call" system, the intricacies of which we shall not attempt to describe. Now could be seen what he was

doing with the millions that he was stealing in Wisconsin and Minnesota.<sup>18</sup> Ordinarily he would loan money at high enough rates, but in times of panic and Wall street "squeezes" he demanded—and received—as much as two per cent. a day or sixty per cent. a month. Friends or enemies, it did not matter; all alike had to pay the enormous interest that he exacted if they desired a supply of ready money (which he always kept on hand) and thus save themselves from defaulting on contracts, and so going into bankruptcy. He was one of that eminent constellation of patriots who hoarded gold when it was most needed to carry on the Civil War, and refused to loan it except at the most incredibly extortionate rates.

At this time little attention was given in the East to railroad operations in the West; the newspapers were almost wholly filled with reports of events of the great Civil War. Few knew of the gigantic thefts and frauds that Sage was carrying on out in the Northwest; and when he suddenly became known as a multimillionaire, glowing accounts were published of him as a wonderful financier. This praise was always modified, of course,

<sup>18</sup> And also in Iowa, in the railroads in which State he was extensively concerned. The capitalists owning the Sioux City and St. Paul Railroad had caused it to be built in such a zig-zag fashion that they could fraudulently grab even larger land grants than the accommodating acts of Congress intended. By edging this railroad in Osceola, Dickinson and O'Brien Counties, Iowa, this company made claim to 189,184.54 extra acres of public land in those counties, and prevailed upon the State officials to grant a patent. Sage, however, had become president of a railroad company called the McGregor Western, and had constructed his line through this very territory. He demanded a share of those 189,000 acres, and, upon refusal, sued the St. Paul and Pacific Railroad Company. The case finally came up in the United States Circuit Court in Iowa, on January 20, 1882, when Judge Love amiably decided, with fine judicial impartiality, that each of the two companies was entitled to an undivided half of the land in dispute.—Federal Reporter, x: 435: 450.

by derision of his extraordinary stinginess, and detestation of his hard qualities. But there were those who had been associated with him who smiled at the stories of his "wizard-like" performances in heaping up millions; they knew what his attributed necromancy really was; of the series of briberies, frauds and thefts. The particulars of at least one more transaction in which he was engaged at this time are accessible, however much many of his other dealings are beyond historical reach.

#### THE PACIFIC MAIL SUBSIDY.

One of the many corporations in which Sage became a large stockholder was the Pacific Mail Steamship Company. This corporation, as we have noted in the Vanderbilt chapters, long corrupted Congress to get predatory mail subsidies from the Government. By an additional act passed by Congress on February 17, 1865, it received another heavy Government subsidy for carrying the mails between San Francisco and Asia via Honolulu.

The booty was so rich that different factions of capitalists continually fought one another to get control of the company's treasury. We find from law suit records that in 1867 that fine, old, massively respectable banking firm of Brown Brothers and Company was one of the heaviest stockholders. In its own name, and acting for authorizing parties, it held 77,839 shares of a total of the Pacific Mail Steamship Company's 200,000 shares of capital stock.

Like the firm of Phelps, Dodge and Company, the banking firm of Brown Brothers and Company was pre-eminently reputed (as it has been since) to be one of the "old-fashioned firms" of "strict integrity." To

be sure, it officially knew nothing of the subsidy bribing incessantly going on; owners of enterprises must cultivate ignorance of such embarrassing details. And could it be, as William Swinton, a noted writer, charged in a pamphlet, that the "eminently respectable" Alexander Brown and his associates were (in our modern phraseology) grafting on the very company in which they were stockholders? Swinton charged that they held a controlling lien which amounted to ownership on boiler, iron and other factories which supplied the equipment of the Pacific Mail Steamship Company's line. A faction in December, 1867, was seeking hard to dislodge them, and they were successfully fighting back. A pretty mess it made in the courts.

Finding that Congress was as ever in the bargaining mood, the owners of this line opened fresh negotiations, and, with such brilliant success, that another act was passed in 1872 granting an additional mail subsidy of \$500,000 a year for ten years. The subsidy plunder was now so much larger than before that the contest for its possession, or rather its handling, precipitated a still more violent row among its owners. With some ulterior end in view, Le Grand Lockwood, one of its stockholders, publicly charged that bribery had been used to get the act through Congress; Lockwood was certainly not prompted by moral motives; he had been a large beneficiary of the Credit Mobilier swindle. The House of Representatives took on a look of pained and injured surprise, bristled up with indignation, and on February 20, 1873, ordered the Ways and Means Committee to investigate.

Congress did not, of course, expect that the investigation would really disclose any damaging facts; it was sanguinely anticipated that the inquiry could easily be

diverted to harmless channels. But the testimony given shattered these blithe expectations.

#### A MILLION DOLLARS IN BRIBES.

The committee was not elated at the testimony; it found itself compelled to report that "a sum of nearly one million dollars appears to have been disbursed in some sort of connection with the passage of the act,"<sup>14</sup> and "that the results of the evidence are that \$565,000 was paid out to lobbyists; the disposition of the remaining \$335,000 remains in doubt upon the evidence presented."<sup>15</sup> Russell Sage was president of the Pacific Mail Steamship Company at this time; he was haled up to testify, which he did with a very aggrieved air. He denied having been connected with the company at the time that the subsidy was granted, and avowed that he knew nothing of the alleged bribery. If we are to accept his word that he was not concerned in the bribery—a doubtful acception, since in other matters he was a proved perjurer<sup>16</sup> then what he probably had done was to wait until after the \$5,000,000 subsidy had been granted, and then had manipulated matters to get in control himself. No doubt he knew full well of the bribery, and it is a possible supposition that he had urged

<sup>14</sup> House Report No. 269, Forty-third Congress, Second Session, 1874-75, ii: xvii. Henry Clews, that exalted banker and moralizer, was one of the directors during this period.

<sup>15</sup> *Ibid.*, xviii.

<sup>16</sup> "A proved perjurer."—For years Sage swore that his taxable personal property did not exceed \$2,000,000, and even this amount he sought to have reduced or wiped off the tax books. After his death the New York City Tax Department prepared to assess taxes on at least \$50,000,000 personal property inherited by his widow, but the amount of assessment was greatly reduced when the executor of his will submitted an affidavit claiming that \$10,000,000 of the Sage cash was invested in non-taxable securities.

Lockwood to make the charges, in order to raise a public stew, and discredit and overthrow the clique in power.

At all events, whatever the ins and outs, there was the Pacific Mail Steamship Company with its large subsidies obtained by bribery, and Sage the head of it all in 1873. So far as the identity of bribers and bribed was concerned, the committee professed to know nothing. One lobbyist, Richard B. Irwin, testified that he had paid out \$750,000 to "other persons," <sup>17</sup> but who those persons were the committee said that it did not know; it had "exhausted every resource" in trying to find out, but in vain. As usual, it was the "unregulated lobby" which was to be blamed and which should be purged.

So much for Sage's career up to the time when he and Gould conjoined in the Union Pacific manipulation and other transactions. What they and other capitalists associated with them did in these operations will now be related.

<sup>17</sup> House Report, No. 269, etc., 1874-75, ii: 123.

## CHAPTER III

### THE GOULD FORTUNE RESUMED

When haled in 1887 before that inquisitorial governmental body, the Pacific Railway Commission, Jay Gould vouchsafed little information; such as was elicited from him was of the most meager character. He said that he had become the owner of a controlling interest in the Union Pacific Railroad Company in 1873 by the purchase of one hundred thousand shares, and that these holdings were subsequently increased to two hundred thousand shares.<sup>1</sup> Sage testified that he himself had begun buying Union Pacific stock in 1868 or 1869.<sup>2</sup> As soon as the grasp of these men and their associates was assured, their industriousness began. Without any intermediate ceremony two hundred thousand shares of stock were forthwith issued, all certificates of nothing else than their self-arrogated power of present and future exploitation.

This manufacture, without any interference from law, of additional titles of ownership, was only one of their numerous and conterminous activities. Their most plastic and successful plan, by which they were enabled to compound loot on a most magnificent scale, was that of buying in, as individuals, various railroads, and then selling them at exorbitant prices to the Union Pacific Railroad Company, which corporatively they controlled.

<sup>1</sup> Pacific Railway Commission, U. S. Senate Executive Documents, First Session, Fiftieth Congress, i: 53 and 447.

<sup>2</sup> *Ibid.*, 340.

It was a plan which, although theoretically regarded in law as fraudulent, was nevertheless audaciously carried on with complete immunity.

#### A GREAT OPPORTUNITY FOR FRAUD.

With its extraordinary opportunities for self-enrichment on a great scale, this plan was one commonly practiced by the puissant capitalists of the times. It had not by any means originated with Gould and Sage; other railroad capitalists had richly profited by it; so thoroughly has it commended itself as one of the simplest and most effective means of transferring wealth, that a long succession of magnates have consecutively availed of it to this very day. Three generations of Vanderbilts have repeatedly demonstrated its value; those illustrious generalissimos of the ranks of wealth, J. Pierpont Morgan and E. H. Harriman, have been two more of the radiant cluster who have proved its enduring worth.

By this fraudulent process, incalculable sums of money, mounting into the hundreds of millions, have been seized with facility. So pregnant with spoils has it been that even the United States Industrial Commission of 1901, distinguished for its easy-going conventions and acquiescent attitude, could not forbear saying in its mild, deferential way of transactions in which buyer and seller were the same parties: "The possibilities of fraudulent profits are something enormous under such conditions. Formerly transactions of this kind were often effected by individuals who represented another person, or by families who were dominant influences in the directorate. . . . With the enormous increase both in number and magnitude of such transactions, the capital required

now exceeds the actual investment capacity of any except a few great fortunes." \*

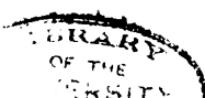
Reduced to simple language this is authoritative confirmation of the truism that none but the mighty rich have the means to engage in a great campaign of theft. Yet to focus attention upon the frauds of these particular capitalists, without inquiring into the good work which at bottom they were doing, would be grievously one-sided and misleading. Notwithstanding their prodigious frauds, Vanderbilt and Gould and all the other masterful capitalists were, without being conscious of it, performing a great evolutionary service of the highest importance. It was they who were among the leaders in consolidating and centralizing transportation and industrial utilities; in effacing the old wasteful competition and the warfare of the little capitalists; and in establishing an era of systematic, concentrated private control. It was done despite statutory law and judicial decisions, in spite of every obstacle, for it had to be done; it was an inevitable stage of progress preceding further stages. In doing it, however, the great barons were prompted by selfish greed only; they fixed their own price, a colossal price, taxing the producer to pay whatever toll they demanded.

#### THE PLUNDERING OF RAILROAD SYSTEMS.

One of the railroads that Gould, Sage, Sidney Dillon<sup>4</sup> and their accessories bought as individuals, and then

\* Final Report of the Industrial Commission, 1902, xix: 326-327.

<sup>4</sup> Dillon was the founder of an extensive fortune; his descendants are among the prominent railroad owners of the United States.



sold to themselves as directors of the Union Pacific, was the Kansas Pacific. This line, about three hundred and ninety-four miles in length, was another of the many railroads the history of which was replete with unbroken corruption. Its chief assets were an issue of Government bonds, and a land grant of three million acres in Kansas and Colorado.

From the very granting of the charter the corruption was so well established that none but the densely obtuse could be ignorant of it. But what mattered the means used? The greater the corruption, the more certainty was there that the ensuing privileges, powers and profits would be all the richer. And the more attractive the prospects, the more eager in their cupidity were the luminaries of the financial world to thrust in a hand. Eminent bankers sharply competed to participate in the financing of the project; the floating of the Kansas Pacific loan was finally awarded to two banking firms. One of these was Dabney, Morgan and Co., of which J. Pierpont Morgan was a member, and the other the house of Morris K. Jesup and Co., the head of which subsequently managed to become enrolled among the galaxy of glorified philanthropists.<sup>6</sup> In their advertisements in 1869 these bankers glowingly descanted upon the splendid land grant of the Kansas Pacific — a grant, which they assured all intending investors, would be more than sufficient security for loans.

#### BLACKMAILING AND PILLAGE.

But the usual culmination came. The Kansas and Pacific project was no exception to the invariable ex-

<sup>6</sup> His estate, after his death on January 22, 1908, was estimated at \$12,814,894 in net personal and real estate. A large portion of the estate was in railroad securities.

perience in railroad affairs. It was assiduously plundered by the men on top of the heap, and the following of petty investors were neatly cheated out. Obviously, stripped as it was, the market value of its stock sunk to an insignificant point. Gould had been waiting for precisely this opportunity, but he did not avail himself of it before he had put through a sort of blackmailing scheme by which he could all the more effectually force the Kansas Pacific into his ownership.

With a loquacity that ought to have aroused keen suspicion, he proclaimed his purpose to break down the monopoly held by the Kansas Pacific; once more he posed as a middle-class benefactor. Thereupon he began, or, rather, ordered, the building of a railroad in Colorado which trenched competitively upon part of the very territory the Kansas Pacific owners regarded as their own assured domain. Gould's scheme worked to perfection; Kansas Pacific stock was forced lower still, and its affrighted owners were speedily compelled to come to terms. No sooner had Gould obtained possession of the Kansas Pacific, and consolidated it with the Union Pacific, than he at once abandoned the Colorado Railroad.\*

Just how much of Kansas Pacific Railroad stock Gould, Sage and Dillon respectively secured is not clear, but the amount of booty that they collectively took in by the fraudulent process of selling this railroad and other railroads to themselves as masters of the Union Pacific, is quite clear. No mean operation was it — something massive was there about it — such as might evoke a wondering admiration on the part of a society wherein great thefts were placed in an exalted category.

In the juggling exchange of stocks and bonds and the

\* Pacific Railway Commission, i: 175.

fraudulent diversion of funds, they stole (the Government termed it "misappropriated") more than \$20,000,000 in the Kansas Pacific, the Denver, South Park and Pacific, and other consolidations alone. From the volumes of the Pacific Railway Commission's report and investigation, certain definite facts are ascertainable. Both the majority report, that of Commissioners Littler and Anderson, and the minority report of Commissioner Pattison, set forth that the frauds of the Union Pacific Railroad Company, under the direction of Gould, Sage and Dillon, were truly gigantic.

Millions of acres of public land were stolen outright. Not less than seven million acres were sold without any patent from the Government.<sup>7</sup> Coal lands of inestimable value were fraudulently seized.<sup>8</sup> Millions of dollars were fraudulently shuffled from one corporation to another. The stock of the Union Pacific was inflated from \$38,000,000 to \$50,000,000, the bonded indebtedness from \$88,000,000 to \$126,000,000, and sundry other indebtedness from about \$4,000,000 to nearly \$10,000,000. The majority report referred "to the lavish and reckless distribution of the assets of the company in dividends" and expressed sharp curiosity as to why the Union Pacific Railroad Company, although doing a large and profitable business, "found itself early in 1884 on the verge of bankruptcy."

While these huge stealings were going on, and after a Government action for "misappropriation of assets" had been begun, Gould and his accomplices took steps to grant themselves immunity from legal consequences. "It appears," says the majority report, "that, while this litigation was pending, certain proceedings were taken

<sup>7</sup> Pacific Railway Commission, i: 192.

<sup>8</sup> *Ibid.*

by the directors whereby by their own acts and votes they undertook to release themselves from any obligations or liabilities to the company."

#### FORTY MILLION DOLLARS GOULD'S SHARE.

The minority report was even severer and more searching. It set forth that the Union Pacific and the Kansas Pacific had received about \$35,000,000 in advances from the Government, little of which had been paid back, and that up to 1887 the sum of \$136,314,010.73 "had been dissipated" by the directors of these two railroads.<sup>9</sup> Fully \$84,000,000 of watered stock had been issued. "The Union Pacific Company," the minority report went on, "has received \$176,294,793.53 in surplus earnings and land sales during eighteen years, and if its stock had been fully paid, as Congress required that it should be, and as its officers certified under oath that it was, nearly all of that money would be applicable to-day to the payment of the Government debt. The company has paid out \$28,650,770 in dividends, and \$82,742,850 in interest on bonds, nearly all of which was distributed to shareholders without consideration. It has sunk over \$10,000,000 in Denver, South Park and Pacific; it paid out \$10,000,000 to Jay Gould and his associates for branch lines and other investments which were worthless." . . . Commissioner Pattison estimated that Jay Gould's personal profit from his manipulation of the Union Pacific amounted to probably \$40,000,000.<sup>10</sup>

A large part of the sum that Pattison included in his estimate of the total theft from the origin of the Union

<sup>9</sup> Pacific Railway Commission, i: 147. The Government subsequently compelled the Union Pacific to make a sort of settlement.

<sup>10</sup> *Ibid.*, i: 150.

Pacific Railroad was, as we have seen, stolen by Gould's predecessors in the Credit Mobilier swindle.

Inasmuch as technical financial terms often present mystifying difficulties to the unaccustomed, a definition of stocks and bonds may not here be out of place; the more appropriately so since it will explain how the manipulators of railroad and other property constituted themselves both shareholders and creditors.

If they desired a railroad to be on a paying basis, they, as stockholders, took its dividends; if it suited their ulterior purposes to bankrupt it, they, as bondholders, could foreclose and buy it back at a bargain price. In the phrase of the street, they could "play both ends against the middle." Bonds and stocks, although both classed as capital, differ in certain salient respects. Bonds are certificates of indebtedness theoretically issued to those who have made loans to a corporation, and can be effaced upon payment of the principal. Stocks, on the other hand, are certificates of ownership theoretically issued to investors; by their nature they are in law perpetual. In brief, then, the stockholders are the owners of a corporation; the bondholders its creditors.

#### THE FARCE OF THE COURTS.

The query can here naturally be expected: Why was Gould not prosecuted for his malefactions? How was it possible for him to have carried through his immense thefts without some visitation of criminal proceedings? So long as he robbed the people, the great plodding, powerless multitude, without any real representation in political office, it could be understood that his license would in nowise be interfered with, seeing that all law was at the command of the rich freebooters. But Gould

plundered his own class as well; outraged, betrayed and pillaged his own associates; they were men of power; why did not they invoke the terrors of criminal law?

Well, some of them did. But it profited them no more than it did his opponents in his famous Erie steals. Threatened with jail several times, Gould easily contrived to keep out of it, as did his similars in every great capitalist fraud. An indictment found against him on May 13, 1879, by the Grand Jury of Monmouth County, New Jersey, for alleged fraudulent transactions, did not trouble him in the least. The charge in this case was made by the Lehigh Car Manufacturing Company that it had supplied cars to him on false representations; that it had agreed to accept as payment first-mortgage bonds of the New Jersey Central Railroad, only to discover, when too late, that these bonds were spurious "consolidation bonds" representing a consolidation that was never made.

Out of this indictment Gould somehow wriggled, and nine years later he was as successful in snuffing out another case of criminal proceedings.

This was in 1888; powerful adversaries sought hard to put him in prison; and it was the knowledge of their power and persistence that thoroughly alarmed Gould.

Certain of these opponents were disgruntled bondholders of the Denver Pacific Railroad, and they were assisted by the owner of an important New York newspaper whose interests Gould had crossed and thwarted in the telegraph and submarine cable field. The charge revolved around a tricky piece of perjury by which Gould, Sage and Dillon, in their railroad consolidations, had embezzled several million dollars in the juggling of thirty thousand shares of Denver Pacific stock. These bondholders had begun an action against Gould and

Sage in New York, in 1885, for restitution; the newspaper owner daily emitted savage maledictory broadsides against Gould, and demanded his punishment. And to cap it all, the foreman of the Grand Jury sitting was a fellow capitalist, whom Gould had cheated fifteen years before in one of his railroad transactions.

It was a formidable combination arrayed against him. Gould knew it. He realized at once that he had better settle with the complaining bondholders and light out and with dispatch; he thereupon came to terms with them, and then fled on his yacht and remained in foreign parts until the statute of limitations could be pleaded with success in his behalf, so far as criminal proceedings were concerned.

#### A WIDE TRAIL OF CORRUPTION.

Still another question, although an idle one, may arise: How was Gould able to get the laws necessary for his numerous frauds, and immunity from legislative and other official action? The Pacific Railway Commissioners' report does not answer this question elucidatively. The minority report, however, sheds a few more rays upon his methods. "Hundreds of thousands of dollars," it says, "have been disbursed at the State and National capitals for the purpose of influencing legislation."<sup>11</sup> Frequent references are made to "payments for improper purposes." However, even if the commission had not explained in its meager, grudging way the corruption following Gould everywhere, it could be taken for granted; his trail of bribery and fraud had been a public stench for full twenty years, in which respect he differed much from most contemporary wealth-seekers, for

whereas he acquired both name and game they, too, had the game, yet so cunningly was it bagged that they were able to slip into the cover of good repute. Also, let this fact not be overlooked; that the widespread bribery was but a form of procuring license to prey at pleasure. To get laws sanctioning theft, and official connivance at the retention of the proceeds, it was necessary to divide among the politicians (including some of those on the bench) a certain portion of the spoils.

By about the year 1883 Gould discarded the Union Pacific after having, as he believed, looted the marrow out of it. Doubtless his conclusion was aright, seeing that no further immediate booty was in sight in that particular line and at that day. But in the fullness of time, namely, fifteen years later, when the country's population and resources had greatly expanded, a worthy successor, in the person of Harriman, came irresistibly along to imitate and elaborate Gould's methods. Not to the purpose is it here to anticipate the narrative of Harriman's career; this will be faithfully found in its proper place; but one more addendum is needed to give a kind of finishing touch to the tale of the Kansas Pacific Railroad, if only to show that others knew how to begin where Gould left off.

The \$40,000,000 or thereabouts in loot which Gould appropriated came in considerable part from the Kansas Pacific transaction. The final swindling of the Government out of much of the advances that it had given for this road, occurred in 1898 — at the precise time when Harriman was bursting brilliantly into wealth and power.

The Government held a remaining claim against the Kansas Pacific for \$13,000,000. A fraudulent plan had been concocted to have the Government sell its lien at

one-half of the amount due; a most deftly preconceived plan it was, and only on the eve of its consummation was there any noise raised. Turpie offered a motion in the United States Senate that the sale be not confirmed; supporting that motion, Senator Allen rose on February 16, 1898, and remarked that "we might as well enact a statute taking \$6,700,000 out of the Treasury and make an absolute donation of it. It would be no more criminal, no more in violation of the statutory rights of the people."<sup>12</sup> Senator Morgan, of Alabama, denounced the sale as robbery, Harris called it a swindle, and its promoters thieves. Robust language, but it did not interfere with the hasty sale for \$6,000,000 of the Government's lien on that very same day.

#### VAST AREAS OF COAL FIELDS STOLEN.

To form any adequate conception of Gould's thefts in his manipulation and management of the Union Pacific consolidation, a mere money computation falls flat. The resources expropriated by Gould and by his descendants cannot be expressed in money terms. For example, the enormous coal deposits expropriated from the people—who can say what their exact money value is? The Interstate Commerce Commission announces that practically the entire coal supply of Oklahoma, Utah and Wyoming is owned and monopolized by the Gould railway system, principally by the Denver and Rio Grande Railroad, which was one of a number of Western railroad lines that Gould held onto and bequeathed to his children.

How was the ownership of these extensive coal fields

<sup>12</sup> The Congressional Record, Fifty-fifth Congress, Second Session, Vol. iii, Part II: 1761.

obtained? Here we do not have to encounter any intricacies of stock and bond finance; they were simply seized with just enough formalities to give some color of complying with the law. Behind these thin formalities lay a long path of "fraud, perjury and violence," says the Interstate Commerce Commission's report of 1908. In commonplace official diction the story of the seizure of these deposits is there told; how for forty years or more the Gould and other railroad corporations have employed dummy "occupiers"—mainly women—to file fictitious entries on public coal lands, and then have had the claims transferred. An inexpensive method it has been, ridiculously easy to get much for little; the dummy "occupiers" were paid \$50 or \$100 each to do their fraudulent work. And if a coal or an oil deposit could not be obtained by fraud, then—if the numerous testimony taken by the Interstate Commerce Commission is correct—force was used to oust such individual occupants as had lawfully acquired the land.<sup>18</sup>

<sup>18</sup> One of the capitalists connected with Gould and Sage was David H. Moffatt, Jr. Moffatt was an official of the Denver Pacific Railway and Telegraph Company, and was associated with Gould and Sage in the Union Pacific Railroad. He became one of the foremost millionaires in Colorado. Some of his methods were revealed in a case before the Supreme Court of the United States. The Government had brought suit to cause the cancellation of two patents of land in Colorado, granted about ten years before, in 1873. This land was partly a valuable mineral tract, containing large deposits of coal and iron. The Government won its case in the lower courts, and Moffatt appealed. In its decision the Supreme Court held that Government land officials had conspired to defraud the Government; that patents of land were made out in fictitious names of alleged settlers; that the affidavits were forged, and that Moffatt was the real beneficiary and "knew of the false and fraudulent character of alleged preëmptions." (United States Reports, Vol. cxii: 24-32.) In this particular case, Moffatt was defeated, but it is very likely that he was successful in similar instances of acquiring mineral lands.

Continuously, since 1866, these thefts of coal and oil lands have gone on with but occasional stoppages due to official investigations. These in nowise served to prevent a fiercer resumption. The Interstate Commerce Commission recently reported that the Gould and Harriman lines in a large region beyond the Mississippi "absolutely dominate the mining, transportation and selling of coal along their lines." Uncounted paragraphs and strings of affidavits, all embodied in the official volumes, sustain the charges of fraud, perjury and violence. Yet the beneficiaries of those colossal frauds have good reason to smile amusedly at all such futile investigations; the ownership of most of the stolen property, however procured, is theirs; some the Government succeeded in getting back, but proportionately little. On the whole, the beneficiaries are well satisfied.

Let it not be supposed that Gould's mind was so pre-occupied with his Union Pacific piracies that he was oblivious to opportunities elsewhere. Far from it. This undersized man, with his mild voice and inconspicuous, almost effeminate, personality, was, indeed, an irrepressible conquerer, seizing and pillaging not merely wherever he went, but in many places and in different fields simultaneously. In his own chosen method of warfare, his mind was an extraordinarily versatile one, wonderfully gifted at computation, with the virile ability to keep track of a vast variety of involved transactions at the same time. With the law end of them he did not have to concern himself; at call he could always hire a corps of the most dexterous attorneys, none of whom scrupled to take as payment a fraction of his thefts. Lawyers, some of whom became judges in the highest courts in the country, and other lawyers who had been judges and had

resigned to draw large retainers from the very corporations in whose favor they had handed down decisions, pleaded and plotted for Gould. An excellent client he was; the litigations in which he was involved were extensive.

#### GOULD'S TEXAS PACIFIC UNDERTAKING.

Wherever he appeared, the lesser frauds were overwhelmed and flung out and he, the great fraud, substituted himself in their places. This he again demonstrated in his appropriation and looting of the Texas Pacific Railroad. This line had received the usual Government subsidies and land-grant gratuities. The corruption used in the procuring of these was fully revealed in the celebrated "Huntington letters," which came to light later in a suit arising between two railroad factions. The writer of these letters was a man who knew; a preëminent corrupter himself; he was none other than Collis P. Huntington, one of the dictating railroad magnates of the period. In 1876, 1877 and 1878, the years covered by his letters, a furious competition in corruption was in progress at Washington, and Huntington wrote unreservedly of it.<sup>14</sup>

After Congress passed the Texas Pacific Railroad Act, Gould turned up with a scheme closely resembling the Credit Mobilier swindle. Forming a construction company he entered into a contract with the Texas Pacific

<sup>14</sup> In a letter dated December 17, 1877, Huntington wrote: "Jay Gould went to Washington about two weeks since, and I know saw Mitchell, Senator from Oregon. Since which time money has been used very freely in Washington. . . . Gould has large amounts in cash and he pays it without stint to carry his points." In a letter dated May 3, 1878, Huntington wrote that the Texas and Pacific "folks offered one member of Congress \$1,000 cash down, \$5,000 when the bill passed and \$10,000 of the bonds" if he would vote for the bill, etc., etc.

Railroad Company to build the westward extension, embracing about six hundred miles. For this work \$12,000,000 in bonds was to be paid, and a stock bonus of another \$12,000,000. A very remarkable contract it was, tantamount to giving Gould a present of the system; its execution could be explained only upon the premise that Gould had bought up a sufficient number of the railroad directors, with an assurance that they would get a generous dip into the plunder. For by the terms of the contract, the stockholders of the Texas Pacific owned a one-sixth interest only in the construction company; this left the Gould syndicate with \$10,000,000 in stock, which easily sufficed to give it the mastery of the road. It placed him in a position where he could elect its directors, make further contracts with himself on any basis he chose, manipulate its affairs, and, in general, make them dovetail with his many other schemes.

#### MORE RAILROAD SYSTEMS GATHERED IN.

The Texas Pacific was one of the four main lines that Gould and Sage obtained control of by their well-known methods. These it is scarcely necessary to recapitulate. Another of their lines was the Wabash, composed of sixty-eight originally separate little railroads in Ohio, Michigan, Indiana, Illinois, Missouri and Iowa. Within five years of the time they gained hold of the Wabash, Gould and Sage had obtained a great series of privileges from various States, looted the railroad of millions of dollars, and then had thrown it into bankruptcy.<sup>15</sup> So nauseatingly fraudulent were their methods, that Judge Gresham, of the United States Circuit Court — one of

<sup>15</sup> A detailed account of this wrecking transaction appeared in the "North American Review," issue of February, 1888.

the few judges of independent character — removed receivers whom Gould and Sage had caused to be appointed, and accompanied this act with a caustic denunciation ; all of which had no effect upon Gould's ownership ; he retained its control and it descended to his family.

Each new haul gave Gould and Sage a still greater supply of resources with which to manipulate other railroads and other public utility systems into their control. The Missouri Pacific, with its chain of railroads for the building of which the State of Missouri had advanced \$25,000,000, was next added to the list. It suited the plan of Gould and Sage not to drive this railroad into bankruptcy as they had the others. In this instance they had a special design. By fraudulently diverting freight traffic at the expense of their other railroads, they so increased its "earnings" that its stock commanded a high value ; the selling of the stock at the apex price yielded them large sums. Then they would depreciate the value of the stock and buy it back. The Missouri Pacific is to-day one of the most prized possessions of the Gould family ; its control is so compactly a matter of callow family inheritance that only recently, in 1909, Kingdon Gould, a grandson of Jay Gould, was installed as a director.

All of these various systems were annexed by Gould in approximately the same years that he was plundering the Union Pacific. Shall we enter into a recital of the network of details by which the final result was accomplished ? The maneuvering, the coercion here, the bribery there, the undermining of this faction of capitalists, and the overthrow of that, the legal devices and long-drawn law suits — all these form a complex narrative which, if copiously described, would be confusing

and wearisome. But the battering methods Gould used in getting hold of other properties are worth an outline, showing as they do, the manner in which the railroad and industrial kings fought out their wars.

#### VANDERBILT BLACKMAILED AND OUTGENERATED.

In looking about for new properties to add to their possessions, Gould and Sage, when sacking the Union Pacific Railroad, decided that the Western Union Telegraph system should be theirs. Any other set of capitalists would have hesitated long before venturing such a plan, for that company, the strongest of all the telegraph companies, was controlled by William H. Vanderbilt, the richest capitalist in the United States. Gould and Sage were not at all deterred by the prospect; they had a plan by which they could force out Vanderbilt; it was none other than the species of blackmailing scheme which they had used to coerce the Kansas Pacific directors, a scheme which Vanderbilt himself had employed, and which competing capitalists had used against him.

This oft-used scheme of the day was the very simple one of building a competitive telegraph line. Again Gould came forward with the posture of being an "antagonist of monopolies"; sweetly did he discourse on the necessity of complete competition. It was at this time that Senator Vest minted his trenchant comment upon the professions of the money seekers, "When they speak they lie; when they are silent they are stealing," an epigram deserving of perpetuation.

Along the line of the Union Pacific Railroad and of their other railroads, Gould and Sage ordered the construction of a telegraph line, with the fixed purpose of compelling Vanderbilt either to buy or to sell. So

seriously was the business of the Western Union Telegraph Company cut in upon, that, in self-protection, it was finally forced to buy Gould's competing line for about, it was understood, \$10,000,000. Having pocketed this large sum wrenched from Vanderbilt and his associates, Gould then plunged in and took away their entire telegraph system. By every trick and art of Stock Exchange speculative methods, Gould forced down the price of Western Union stock, and gradually bought in quantities. To Vanderbilt's complete surprise and extreme mortification, Gould turned up in 1881 not only with a control of the Western Union, but also of the American Union Telegraph Company which he had sold to Vanderbilt but a short time previously.

#### THE MONEY ARISTOCRACY AND GOULD.

Upon obtaining control of the Western Union Telegraph Company, Gould immediately increased its stock and kept on increasing it. Triumphant, gorged with spoils and power, Gould did not have to court the support of all that was considered solid and respectable among the money aristocracy. They knew him to be a great thief, and he knew their caliber, despite the exterior that they had woven about themselves. The instinct of kind for kind is unerring; which instinct in a money world is reinforced by that invariable principle of action whereby wealth-seekers rally around him who proves his supreme ability to get away with the plunder. The vanquished are expeditiously deserted; the successful flocked about. Such fellow kings of wealth as John Jacob Astor, J. Pierpont Morgan, Collis P. Huntington and others were among the noble array to be found in Gould's board of directors; a notable lot many, or all,

of whom had pursued careers more or less paralleling Gould's; a sophisticated confraternity they comprised, fully and finely capable of understanding one another.

All were wary old stagers; Gould could not easily overreach them; while all of them were not quite as astute as Sage, most were widely schooled in every devious tactic and ruse of financial and industrial warfare. Their safety lay in their lack of trust; the very reverse of the virtues they preached was developed by the necessities of their conflict. But when a credulous man, such as Cyrus W. Field, the originator of the submarine cable, stepped along with his confiding faith in Gould's friendship, spoliation and ruin were easy accomplishments. Field was simple enough to believe in Gould; only after Gould had mercilessly squeezed his wealth out of him, and had turned him adrift a bankrupt, did Field, too late, begin to realize that friendship had no place in the competitive whirligig. Field had little reason to whine over his misfortunes; the wealth that Gould tore from him was the product of a series of frauds in the results of which he was very willing to share.

#### GOULD SWEEPS IN ELEVATED RAILROADS.

This fleecing of Field happened in Gould's thimble-rigging of elevated railroad stocks in New York city. No part whatever had Gould in the building of this elevated system; the franchises by which the roads were constructed and operated had been obtained by bribery. After other capitalists had done the bribing and had shown how profitable these elevated railroads were, Gould and Sage reached out for their ownership.

It was fairly well established before the Hepburn

Legislative committee, in 1879, that about \$650,000 had been expended in bribes to get the charter of one of these elevated railroad companies, the Gilbert, later called the Metropolitan. Under examination, Jose F. Navarro, one of the officials of the company, testified that up to the time the building of this railroad was started, \$650,000 had been spent. Questioned as to whether it had been expended at New York or at Albany (the seat of the Legislature) he replied that he did not know. It was quite clear from the interrogatories and answers that this \$650,000 had been used as a corruption fund.<sup>16</sup> Probably a similar sum had been used to get the franchise of the other elevated railroad, the New York.

The old device, so familiar in railroad building, of organizing a construction company, was employed in the building of the elevated railroads. A company called the New York Loan and Improvement Company was brought forth to carry on the work of construction. The same men were directors of both construction company and elevated railroad companies, and made fraudulent contracts with themselves.<sup>17</sup> Such capitalists and "philanthropists" as George M. Pullman, John P. Kennedy<sup>18</sup> and others profited heavily from

<sup>16</sup> Railroad Investigation of the State of New York, 1879, v: 43. These franchises originated during the period of the Tweed regime. The New York Legislature was then being frequently corrupted. When the franchise for the Bleecker Street and Fulton Ferry surface line, New York City, was obtained, \$434,000 of its bonds were distributed gratuitously. (See "The History of Public Franchises in New York City, p. 121.)

<sup>17</sup> *Ibid.*, 12.

<sup>18</sup> Of Pullman some facts have been brought out in Vol. i of this work. Another example of his methods and standards at about this time may be instructive. After Jacob Sharp had bribed the New York City Board of Aldermen with \$500,000 in cash, in 1884, to give Sharp a franchise for a surface railway on Broadway, the owners of the franchise issued \$952,000 in

these fraudulent transactions; they were, at the same time, reaping wealth elsewhere by many other methods of the same character.

After the first two elevated railroads were built, a new scheme of plunder was conceived and carried out. A company called the Manhattan was chartered with a capital of \$2,000,000, ostensibly to build elevated railways. But it did not build a single foot; the same clique in control of the New York Loan and Improvement Company turned up in control of the Manhattan, and they leased the two existing roads to the Manhattan. Little actual cash did this lease cost them; they illegally increased the Manhattan's capital stock from \$2,000,000 to \$13,000,000, which amount they divided as loot.<sup>10</sup> By stockjobbing methods Gould and Sage then crushed out most of the small stockholders, and secured control. They proceeded to water the stock still more, consolidate the whole system, and crowd out the more powerful stockholders.

#### FIELD THROWN OUT.

Certain of the heavy stockholders, such as Field, stood in with Gould and Sage, but others bitterly fought the various fraudulent moves and expedients that Gould and Sage brought into play. The outcome of the ensuing legal contest could be forecasted. Gould seldom

stock and \$2,500,000 in bonds for the construction of a railway only three miles in length, and the real cost of which was only \$160,000. These bonds were unlawfully and dishonestly issued. Pullman knew that fact, and also of the bribery. In exchange for cars supplied by him, he received \$150,000 of these bonds at fifty cents on the dollar.—See report of, and testimony before, the New York Senate Investigating Committee, “Senate Committee—Broadway Railroad, 1886”: 181.

<sup>10</sup> Railroad Investigation of the State of New York, 1879, v:6 and 7.

went into court without owning his judge. The judicial tool this time was Westbrook of the New York Supreme Court; when Gould had started out in his career of theft, Westbrook had been his first lawyer. Now as judge, Westbrook issued orders and injunctions backing up Gould and Sage's fraudulent acts. His subservience was so notorious that he once held court in Gould's private office in the Western Union Telegraph Company's office and issued an injunction.<sup>20</sup>

After becoming absolute masters of the elevated railway systems in New York city Gould and Sage no longer had any use for Field. At the first opportunity the stock market was rigged to divest Field, and he was thrown out to linger and die a ruined man.

<sup>20</sup> The New York State Assembly later impeached Judge Westbrook for malfeasance in office; but from the Senate, as trial body, he managed to get a verdict of acquittal.

## CHAPTER IV

### THE PRESENT STATUS OF THE GOULD FORTUNE

What was the concrete result, the grand culmination of Gould's fifteen years of plundering? He, himself, gave a demonstration when on March 13, 1882, he called in Sage and other associates and exhibited to them a box crammed with securities. Disparaging reports had been scattered in Wall street that he had been hard hit by recent declines in the stock market; and it was to belie these statements that he summoned in witnesses to attest by impressive proofs that his wealth and power were unaffected. He spread out \$23,000,000 of Western Union stock; \$12,000,000 of Missouri Pacific stock, and \$19,000,000 of other stocks. "There is not another man in America except Vanderbilt," observed Sage, "who could make such a display of stock as that." But the securities thus revealed were only a part of Gould's wealth; they did not include many other varieties. Two years later he ostentatiously made another and still larger display.

Those heaps of stocks and bonds were the legal tokens of this one man's far-reaching power. By their ownership he was vested not only with the mastery of the great inflowing revenues from numerous corporations, but the autocratic control over a vast army of wage workers. Every dollar of his fortune had been extracted by deceit, bribery, fraud and theft, yet here he was, one of the dominating magnates of the country, the

owner of a ramification of properties, the dictator of the fate of tens of thousands of workingmen. Behind him, as an impregnable fortification, stood the Law, guaranteeing him the possession of that which he had seized by theft.

#### WARRED ON CAPITALIST AND WORKER ALIKE.

But a few years back and Gould was buying law to escape law; and now here he was unbranded with the prison stigma, thanks to his money, and lording it over the nation. But ever there clung to him that same crass, indiscriminate brutality of method in dealing both with the powerful and the weak; just as he struck hard at competing capitalists, without timidity or mercy, so did he openly and candidly browbeat and terrorize his legions of workingmen. Of him it could not be said that he shrank from assailing the strong, while overawing the feeble. He warred on both capitalist and on labor, organized and unorganized, and did so with equal ferocity whether by involution or frontal onslaught. Gould was not the politic sort of magnate who cut the pay of his workingmen, and then, as a solace, presented them with a toy philanthropy; he did not polish greed with hypocrisy. When he reduced the pay of the workers on his lines, he did it with a bold aggressiveness, daring them to challenge his power.

Few magnates, while in the very process of putting through some colossal fraud, had the hardihood to incite the resentment of their employés and of the people. They preferred to wait until the agitation over their individual frauds had been tempered by a certain lapse of time. Such a cautious policy on no occasion hindered Gould. During the very times when he was defrauding

and bribing, he belligerently attacked his workers and compelled them to accept lower wages. What if a public outcry should go up? He had been menaced with many outbursts of fierce, withal futile, public indignation; they had not interfered with his accumulations; he viewed them with a cynical scorn.

In 1881 he and his clique were loaded down with spoils; the people had grown exceedingly restless, stung by their poverty, on the one hand, and contemplating the gigantic wealth of the capitalists on the other. Gould went ahead as if public protest were as nothing. He added, as we have seen, \$13,000,000 of watered stock to the capital of the elevated railroads in New York city, and at the same time forced the agents and gate-men on those roads to submit to new terms. They had been complaining that they had to work from twelve to fifteen hours a day for the wretched pittance of \$2 and \$1.75 a day. Gould listened to their grievances, and conciliated them with an order reducing their day's work to twelve hours. But their visions of scanty triumph vanished when they learned that he had also cut their pay.

At the very time that he was looting the railroads in the West, he reduced the wages of the men on the Missouri Pacific and defied the labor unions, causing great strikes in 1885 and 1886, by which, however, his railroad workers gained virtually nothing. Most typical of the servility of many newspapers and politicians were the abuse and obloquy with which the labor leaders who conducted those strikes were overwhelmed. Let a man champion the cause of the oppressed, and no matter how lofty his ideals or noble his nature, he was at once subjected to an endless stream of ridicule and traducing. The servitors of the public press and the retainers of

politics joined in a vicious persecution; Martin Irons, who managed the Missouri Pacific strike, was defamed, hounded and blacklisted. It was pitiful to see this man, one of the purest, best and self-sacrificing, precariously compelled in after years to sell peanuts for a living; and he now lies in an obscure grave, quite forgotten, while the remains of Gould, one of the master thieves of the period, repose in a spacious mausoleum; and the children of Gould are among the oligarchy of families ruling the United States.

#### THEFT REWARDED WITH POWER AND SPLENDOR.

At forty-five years of age Gould possessed more than a hundred million dollars. He was prematurely old; his beard was streaked with gray, his hair thin, and his swarthy, bilious, glowering face was rigid with hard, deep lines. His form had shrunk so that he looked more insignificant than ever before. But when he traveled, no one could mistake the evidences of sovereign power. From one end of the country to the other he rode in a palatial private car, handsomely appointed, containing every comfort and luxury then devised — an observation room, a parlor, a dining hall, sleeping rooms, a kitchen and porter's quarters. His yacht, Atalanta, was sumptuous, indeed. His manner of life befitting that of a full-blown magnate. At Irvington-on-the-Hudson he sequestered himself in a great and costly mansion, surrounded by five hundred acres. Attached to it was one of the finest conservatories in the world. His city residence in New York city was a massive, somber brownstone house at the northeast corner of Fifth avenue and Forty-seventh street, in the very heart of the aristocratic section.

He, however, had other mighty powers not evidenced in outward display. For some years he owned a newspaper, the New York "World"; a curious sight it was to see one of the great pirates, who many a time had narrowly escaped prison, instructing the public as to its duty, moral, political and otherwise. But the known fact that Gould owned this newspaper helped to discount its utterances and reduce its circulation.<sup>1</sup>

A much more successful and insidious method of influencing public opinion was by his control of the Western Union Telegraph Company, and, through that corporation, of the Associated Press, the foremost news distributing agency in the United States. Distorted, misleading or false news dispatches were manufactured or artfully colored and supplied to the public press. These not only gave Gould superior underhand facilities for influencing the course of the stock market, but they were also used in favor of capitalists and against labor and radical movements at every opportunity. The public was fed on grossly perverted news accounts of strikes and labor and political movements; upon this fabricated news the newspaper owners, themselves capitalists or largely servile to capital, based hostile if not malevolent editorials; and the combination of the whole was used to prejudice the mass of the public against any movement or agitation threatening the complete sway of capital.

#### JAY GOULD'S DEATH.

Jay Gould's last years were divided between the tortures of severe indigestion and insomnia. Up and down

<sup>1</sup> But when Gould sold the "World" to Joseph Pulitzer, that newspaper became one of the bitterest denouncers of Gould, probably with a view to disassociating itself as much as possible in the public mind from the fact of Gould's former ownership.

the block fronting his New York city mansion he would nervously pace for hours during the long, shadowy vigils of the night — a little, shrunken, cankered man vainly endeavoring to tire his mind and frame into an exhaustion compelling sleep. He died on the morning of December 2, 1892, and his body was interred in a classic mausoleum, costing \$110,000, in Woodlawn Cemetery. Many multimillionaires, whose ways and station were akin to Gould's, and some of whose careers were interwoven with his, showed up at the funeral services. Russell Sage was there, and J. Pierpont Morgan and Collis P. Huntington and a group of others — an impressive procession of money lords with appropriate visages and attired in the immaculate garb of mourning, although not a soul really mourned Gould save his own family. His will disclosed an estate of nominally \$77,000,000, but this was merely the exoteric side of the testamentary document; the estate amounted to far more. All was bequeathed in trust for his six children — four sons and two daughters. Unlike the Astors and some other magnates, Gould did not transmit the bulk of his wealth to his eldest son.

Now, when Jay Gould died, many newspaper-owning scavengers, who during his lifetime had bootlicked him or kept fearfully silent, belched forth vituperation and rehearsed his odious deeds.

Their misrepresentations consisted not in exaggerating his evil — that were not possible — but in singling him out as an exceptional defrauder, and in detaching him from the system which produced him and which alone could be held responsible.

Gould passed away the most hated man in the United States. Social ambitions had never concerned him, but his children developed the yearning for recognition. At

every step, at first, there came an outrush of the old taunt that their father's fortune had come from pillage and wrecking. Yet all of the founders of fortunes were, without a single exception, of a stripe; all had tricked, lied, deceived, bribed, defrauded and stolen.

With hundreds of millions of dollars, however, at their command the Goulds were able to overcome all social obstacles. When one has money enough an elect social position does not have to be accorded; it can be taken by assault. One of the easiest routes is by buying an entree into the caste of European titled nobility, which in these business days does a lively trade huckstering names for cash. Accordingly, in 1895 Anna Gould, one of Jay's daughters, was transformed into the Countess de Castellane, and the Count received the opportunity of requisitioning many of the Gould millions. During the next eleven years he right jovially availed himself of it, and squandered millions with a fine prodigality, and went through fantastic antics until a divorce cruelly put a stop to them. But Mme. Gould ascended still higher in the pages of the *Almanach de Gotha*. The Count's successor is the Prince de Sagan, a perceptive scion who is doing his valuable part in demonstrating how the feudal nobles, often deprived of their stolen estates at home by revolution and dissipation, can leisurely recoup by allying themselves with estates stolen in newer countries.

#### THE STRUGGLE FOR SURVIVAL.

To lay too much stress upon the social aspirations and doings of the Gould family would obscure the titanic industrial conflict in which they have been engaged. After Jay Gould's death the wealth and possessions of the

family greatly increased and its conquests were extended.<sup>2</sup>

But this process has not been allowed to continue unrestricted. The last few years, as we have already pointed out, have ushered in a terrific contest for the exclusive mastery of the nation's resources. Looking back fifty years, we see a large number of petty, consequential industrial bosses, each running his own little railroad or factory. A change then takes place; great, energetic capitalists develop, who make war upon the petty bosses and by fair means or foul crush them, seize their properties and consolidate these into great systems. The petty railroad owners disappear and their places are taken by such overbearing magnates as the Vanderbilts, the Goulds, Huntington, Morgan, Hill, and the like. Ten years ago all of these men were magnates of colossal power, each heading some great system, and despotically dictating over some particular domain.

Now another stage in the process of industrial evolution is being reached which signifies the decline of overlords of the Gould type, and which foretells the approaching climax of capitalist institutions. Mighty as these magnates have been, they are gradually and inexorably being subordinated by a still mightier power, the most puissant of all. The aim of this all-pervading

<sup>2</sup> Many of the large properties of which they became owners, or partial owners, had a broad foundation of fraud. While neither Jay Gould nor his children committed these particular frauds, yet they benefited by the original frauds. The Colorado Coal and Iron Company is a case in instance. In a suit brought in 1897 to vacate the land title of this company, the Government charged that the company's coal and mineral lands had been obtained by conspiracy and fraud. The lower courts sustained the Government, but the Supreme Court of the United States decided that although undoubtedly fraud had been used, yet the proof presented was not sufficient for an adverse decision.—Supreme Court Reporter, viii: 131-141.

power is industrial absolutism; and in the pursuance of this inevitable end it is grinding down all opposition even as the Goulds, the Vanderbilts and others have squelched lesser magnates heretofore. No longer are the Goulds able to extend their power much; the climacteric period has arrived when they have to fight hard to retain what they have.

#### THE RISING AUTOCRACY.

This supreme power, clutching at every form of the production and distribution of products, is the Standard Oil Company, headed by the Rockefellers.

Thirty-five years ago it obtained a monopoly of oil products by getting secret railroad rates, and by other crushing methods. At first it ingratiatingly approached the railroad magnates as a supplicant seeking favors. Soon, as a matter of policy, it made these magnates sharers in its profits. Then it began to buy its way into the ownership of railroads. Its profits have been so fabulously vast that it has been under the constant, unescapable necessity of reinvesting its vast surplus, ever growing vaster. This surplus it has applied to buying up railroads, bank, mine, public utility and industrial stocks and securities of all descriptions. With this fixed, unchanging policy its power grew to such an extent that its members began to push themselves in as directors of a great variety of corporations. For a period it then carried on a policy of having "a community of interest" with the large magnates in every field; of working in coöperation with them in determining industrial matters. But during all of this time it was encroachingly buying more and more stocks of all kinds; so that now it has arrived at the point where, operating through such



**GEORGE GOULD,**  
**Eldest Son of Jay Gould, and Chief Wielder of the Gould Fortune.**



generals as the lately-departed Harriman, it is gradually forcing the Vanderbilts, the Goulds and other first-rank magnates of a decade ago to a secondary place, and entrenching itself in autocratic authority. Several of the railroads long ruled over by the Goulds have become, to a considerable extent, Standard Oil adjuncts.

Industrial battles, such as that between George Gould and the Pennsylvania Railroad in 1902, will, as occurrences, soon be extinct. This warfare arose over Gould's project to extend the Wabash Railroad to the Atlantic seaboard. The Pennsylvania Railroad promptly objected to a competitor in its richly profitable territory. The ensuing struggle was fought out in legislatures, common councils, courts, Congress, and by actual physical force. So completely have the Pennsylvania Railroad magnates ruled that State for fifty years that it did require considerable temerity on Gould's part to war upon them.<sup>8</sup>

<sup>8</sup> As an instance of the exercise of the Pennsylvania Railroad's great political power, the following account is significant. It shows how Cassatt, president of that railroad, and a few other industrial magnates and political bosses, decided that Philander Knox (at present, 1910, United States Secretary of State) should be chosen a United States Senator. Knox was long a corporation lawyer. The Governor of Pennsylvania was ordered to ratify the choice of this group of political dictators, and did so. This account was published editorially in "Collier's Weekly," issue of June 8, 1907, and republished in the same periodical, issue of November 27, 1909. Its accuracy was not disputed, and no denials were made, or suits for libel brought. The account read:

"Mr. Knox's political genesis had for its setting the general offices of the Pennsylvania Railroad in Philadelphia. There met, to name a successor for the recently deceased Quay, Senator Penrose, Henry C. Frick, 'Iz' Durham, the Philadelphia boss, who was then at the height of his power, and the late President Cassatt. Between the politicians and the two men of business a *modus* was arranged. Knox should be Senator. . . . Then the party adjourned to dinner at President Cassatt's house. To this was invited Governor Pennypacker, who had the appointing. While the rest fingered the walnuts, Pen-

One of the most marked instances showing the extremes that the Pennsylvania Railroad magnates went in their rule, was the Riot Indemnity bill which they attempted in 1879 to get the Legislature of that State to pass. It is advisable to present a sketch of the circumstances of this bill, inasmuch as it gives a good idea of the methods of A. J. Cassatt, long the president of the Pennsylvania Railroad. It was Cassatt whom George Gould had to fight in 1902; the methods Cassatt used in 1879 were the methods he invariably used. With all his unscrupulousness Jay Gould never had the face to do anything approaching in enormity the Riot Indemnity bill of Cassatt. Yet when Cassatt died recently the most lavish eulogies were everywhere published; he passed away in the full attributes of superior respectability.

#### SELF-INFILCTED ARSON AND A \$4,000,000 GRAB.

We have seen, in an earlier chapter, how the Pennsylvania Railroad's officials, during the great strike of 1877, ordered their agents to set a number of worthless freight cars at Pittsburg on fire, in order to charge the strikes with being riotous, and so have a pretext for calling out the military.

That very crime of arson these magnates, two years later, made the basis for an attempt at plundering the people out of \$4,000,000 at one grab. In the whole industrial history of the country no avowedly bolder scheme had ever been tried before. When, in 1879, a bill was introduced in the Pennsylvania Legislature to indemnify the railroad, to the amount of about \$4,000,-

rose invited the Governor into the back yard to look at the moon. 'It's Knox,' said Penrose to the Governor. And Knox it was. . . . To this narrative some minor interest is lent by the fact that President Cassatt was a Democrat."

000, for the loss of property, the news was received with general amazement. Cassatt pushed the bill, and it would have become law had not some of the legislators revolted at the brazenness of the plan. A few denounced it as a monstrous fraud; one, in particular, Representative Wolfe, charged that bribery was being used, and demanded an investigation. Whereupon, a committee of investigation was appointed on April 9, 1879.

The report of this committee specifically stated that three members of the Legislature had been guilty of bribery. From the evidence it was clear that Cassatt and Quay — the latter a corrupt politician at the head of the Pennsylvania Republican machine — had leagued forces to rush the bill through; that many members had been bribed either with money or with promises that certain bills of theirs would be passed; that corrupt combinations existed among members to pass important legislation, and that many editors of influence throughout the State had been bought to advocate the passage of the bill.<sup>4</sup>

#### A WAR OF MULTIMILLIONAIRES.

Such were the ways of Cassatt, the head of the forces that George Gould had to encounter. Of all results, Gould sought most to get an entrance into Pittsburg with its stupendous annual traffic of 75,000,000 tons. The government of that city was owned by the Penn-

<sup>4</sup> Petroff, Kemble, Salter, Rumberger and Crawford, all legislators or lobbyists, were convicted, in 1880, of bribery, and each was sentenced to a year's imprisonment. In passing sentence Judge Pearson remarked that bribery had been a common occurrence in the Pennsylvania Legislature for years.

But although the corruption attending the attempted passage of this bill was exposed, the Pennsylvania Railroad finally secured, as has already been noted, approximately \$22,000,000 in "damages" from the public treasury.

sylvania Railroad. But what of that? If money could put in and run one set of officials, money could also put in another set. So George Gould decided, and rightly. The government of Pittsburg now became the stake; Gould adroitly caused the question of the entry of the Wabash Railroad to be made an issue of the municipal election of 1902.

Backed by his millions, so it was said, a "reform" movement was generated and blown into lusty growth. Gould carried his point; a Common Council favorable to his plans was elected.<sup>5</sup> At the same time Gould had a bill passed by Congress allowing him to bridge the Monongahela River. The statement has been made that it cost him \$12,000,000 to get an entrance into Pittsburg, but the documentary proof is wanting. After spending \$35,000,000, he carried through his Wabash plans.

Now the warfare of force began. In retaliation for Gould's victory, the Pennsylvania Railroad magnates ordered all of his Western Union Telegraph poles along that railroad's right of way to be cut down. If the telegraph operators had gone on a strike, the cry would have been raised that they were dangerously interrupting an essential public business, but violence when committed by magnates was held a sacred right of property, and no protests of Government officials were heard.

This transaction has been only one of many of those of corporations controlled largely or partially by the

<sup>5</sup> This "reform" movement was heralded as one which would regenerate Pittsburg. The increasing corruption, caused by the business interests in bribing public bodies, was evidenced recently. The conviction of one of the principal bribe takers was followed by his confession, and by the confessions, in March, 1910, of many more members of the Pittsburg Common Council. These confessions disclosed a vast system of bribery by steel magnates, banks and other business interests. At the present writing (April, 1910), forty-one councilmen are under indictment, and more than a score of others have confessed.

present generation of Goulds. In a work, being published serially at the present writing (1910), and written by Judge Ben B. Lindsey, a public-spirited jurist who has the most intimate knowledge of Colorado affairs, Judge Lindsey reveals in detail some extent of the corruption in that State. He tells how nearly all of the officials and judges are corporation tools; how vast numbers of fraudulent votes are counted at elections; and how the corporations have dictated the election or appointment of many of the very judges whose decisions have been so oppressive to the working class. In particular, he tells at length how Governor Peabody was fraudulently declared elected in 1905, and how Peabody had bargained to appoint to Supreme Court judgeships certain men named by the corporations. Lindsey goes on:

Does this seem incredible? Read then the Colorado Supreme Court Reports, Vol. 35, page 325 and thereabouts. You will find it charged that the Colorado and Southern Railway Company, the Denver and Rio Grande Railway Company, and the public service corporations of Denver had an agreement with Governor Peabody whereby these corporations were to be allowed to select the judges to be appointed to the Supreme Bench. You will find it charged that Luther M. Goddard had been selected as a proper judge by the public utility corporations, but that the two railroad companies objected to him as "too closely allied with the interests of the Denver City Tramway Company and the Denver Union Water Company." "As a last resort," the statement continues, "the agent and representative of the said Colorado and Southern Railway Company was induced to, and did, after midnight on Sunday, the eighth day of January, and at about one o'clock in the morning on Monday, the ninth day of January, repair to the home of the said Luther M. Goddard, in a carriage, calling him out of bed, having then and there such conversation with the said Goddard that the said railway corporations, through their agents, withdrew their opposition to his confirmation."

tion, and they did on said morning at about three o'clock thereof announce to the remainder of the said corporations through their said agents and representatives, that their opposition had been withdrawn, and the withdrawal of the said opposition having been announced, the said senate of the Fifteenth General Assembly did, almost immediately upon its convening on the morning of Monday, the ninth day of January, confirm the said nomination of the said Goddard."

The brief containing these charges is signed by Henry M. Teller, Ex-Cabinet member and United States Senator, and by Ex-Governor Thomas acting as counsel for Senator T. M. Patterson, who had made the charges in his paper, *The Rocky Mountain News*. These gentlemen offered to prove the charges before the Court, but the Court, in a most amazing decision, refused the offer, held that no matter how true such charges might be, it was "contempt of court" to make them, and fined Senator Patterson \$1,000! . . .<sup>6</sup>

And so it seems, if such charges as these are true, that the present Goulds are continuing the methods of their father. It may also be well assumed that these public revelations are only indications of extensive underground practices and transactions many of which are never publicly disclosed.

Slowly sliding downward, as it is, to a relinquishing place in the ranks of wealth when compared with such fortunes and power as Rockefeller's, the Gould family is nevertheless prodigiously rich. Forty years ago Jay Gould was doing his best to keep out of prison; to-day his children and grandchildren live in gorgeous palaces.

Georgian Court at Lakewood, N. J., one of the homes of George Gould, is emblematic of their splendor. Built in the Georgian style of architecture, the main part is two hundred feet long and fifty wide. The great main

<sup>6</sup> "The Beast and the Jungle," Everybody's Magazine, issue of February, 1910: 241-242. Moody's "Truth About The Trusts," issued in 1904, describes the Denver and Rio Grande Railroad as a distinctively Gould system. (p. 435).

hall is thirty feet wide and fifty long; at one end is a massive elliptical staircase of marble and bronze, supported by marble columns, and at the other end a superb marble fireplace. Around three sides of the hall is a mural painting sixteen feet high and eighty feet long — a depiction of the "Canterbury Pilgrims" from Chaucer. A hundred and fifty pendants of cut glass radiate prisms from the chandelier. The furniture in this hall is of Louis XIV. style, blazing with powdered gold and covered with deep crimson velvet. This palace contains thirty rooms for the use of George Gould's family and guests. The very bedstead in which George Gould sleeps cost \$25,000. And all around this gray and white mansion, gray stucco covering brick walls, are fairy-like Italian sunken gardens filled with statuary and magnificent fountains. Connected with the mansion is a court, built at a cost of \$250,000, wherein is a great tanbark hippodrome, a gymnasium, bowling alleys and lounging rooms, a shooting gallery, a large swimming pool and Turkish and Russian baths.

And this is only one of the many palaces of the members of the Gould family. Whence all of this wealth and splendor came is now an open book; no enigma are its sources, but a prolonged tale of fraud and theft, whereof the most vital facts only have been herein brought out.

## CHAPTER V

### THE BLAIR AND THE GARRETT FORTUNES

Of John I. Blair little is now heard, yet when he died in 1899, at the age of ninety-seven, he left a great personal fortune, estimated variously at from \$60,000,000 to \$90,000,000; his wealth, descending largely to his son, De Witt C. Blair, forms one of the notable estates in the United States. Here, according to the purveyors of public opinion, was an honest man; here incontestably was a capitalist of "rare business instinct," whose fortune came from pure, legitimate and upright methods. "For more than half a century," said one newspaper editorial<sup>1</sup> at his death, "he has been one of the leading business men in the country, and for more than a quarter of a century one of the richest men in the world, his fortune being estimated at from \$50,000,000 to \$100,000,000, every farthing of which came to him through legitimate channels, creating other wealth on its way to him, as well as after it had reached his hands." This was not an isolated eulogy; round and round the columns of the press went these pæans with never a dissent or demurring.

#### AN INQUIRY INTO BLAIR'S CAREER.

Through all of these weary pages have we searched afar with infinitesimal scrutiny for a fortune acquired by honest means. Nor have the methods been measured

<sup>1</sup> New York "Tribune," August 27, 1899.



**JOHN I. BLAIR.**



by the test of a code of advanced ethics, but solely by the laws as they stood in the respective times. At no time has the discovery of an "honest fortune" rewarded our determined quest. Often we thought that we had come across a specimen, only to find distressing disappointment; through all fortunes, large and small, runs the same heavy streak of fraud and theft, the little trader, with his misrepresentation and swindling, differing from the great frauds in degree only. Have we, at last, in Blair's, stumbled upon one fortune unblemished by any taint whatsoever? Can we now exclaim, *Eureka!* So it would seem if current comment is to be swallowed as the fact. But inasmuch as we have doggedly developed an exploring, if not a perversely skeptical turn of mind, let us gratify it to the full by investigating the career of this paragon of commercial virtue.

Now it does so happen that whatever the reserved, sequestered life Blair led in his dotage, basking in the titular glory of wonderful business man and philanthropist, he left a large, resounding impress upon industrial events of fifty and sixty years ago. The surviving records, buried in obscurity, emerge from their forgotten shelves to confound the fairy tales of present-day eulogists. He was contemporaneous with Commodore Vanderbilt, the first John Jacob Astor, and Russell Sage; and he was as excellent a business man as any of them, which is to say, his methods were relatively the same as theirs. While Astor was proving his talent as a successful business man by debauching, swindling and murdering Indian tribes, and while Vanderbilt was blackmailing, and Sage was bribing and embezzling, Blair was demonstrating in his own way that he, too, had all the necessary qualifications of "a leading business man."

Born near Belvidere, N. J., in 1802, his parents were

farming folk; and his biographers relate with a blissful smack of appreciation that when he was a very young boy he announced to his mother that, "I could go in for education, but I intend to get rich." Like Sage, he started as a clerk in a country store, and he then widened into being the owner of a general merchandise store, at what is now Blairstown, New Jersey. Years passed and he prospered, his panegyrists tell, and he then opened a number of branch stores. But this part of his career is shrouded in mere tradition; nothing authentic is known of his methods at the time.

#### BLAIR AS A RAILROAD BUILDER.

Blair next turned up as the owner of an iron foundry at Oxford Furnace, N. J., and it is from this point of his career that definite facts are embodied in official records. "The necessity for transporting the metal to the seaboard," says one biographer, "led Mr. Blair and others to organize the Lackawanna Coal and Iron Company, out of which has grown the great system of the Delaware, Lackawanna and Western Railroad." With this all-inclusive sentence the biographer airily dismisses this part of the subject. But there are weighty reasons why we should dwell upon it, with brief, yet sufficient explanation, for it was in this operation that Blair made his first millions; it was here that he gave the first scintillating demonstrations of his "rare business instincts."

Had it not been for an acrimonious falling out between him and his associates in this railroad business, the truth would be beyond reach. As it is, these men made the huge error of perpetuating their quarrel in print; an unpardonable blunder if the good opinion of posterity is to be held. This quarrel arose over such a

sordid matter as the allotment of graft; it was a bitter, ungentlemanly row, as is all too clearly evidenced in the biting denunciations of one another that were put in the reports by the disputants themselves. From these reports it appears that Blair was, indeed, doing business in the accustomed style; he was selling, at excessive prices, the products of his mill to a railroad corporation of which he was a director, and individually building branch lines which he foisted at enormous profit upon the corporation.

The Delaware, Lackawanna and Western Railroad, now one of the very richest in the land, was organized in 1850 by the grouping of a number of small, separate lines. To secure franchises and special rights and aid, the usual procedure of bribery was resorted to, and with unfailing success. The men at the head of it knew their slippery trade well; they were the same rich merchants who were involved in many another fraud. Some of them we have accosted before in these chapters—George D. Phelps, John J. Phelps, William E. Dodge, Moses Taylor and others. With John I. Blair these men formed the board of directors of the Delaware, Lackawanna and Western Railroad Company.

One of the separate lines incorporated in this railroad was the Warren line, crossing New Jersey into Pennsylvania. The building of this road, as nearly as can be made out from the law records, was attended with some very peculiar circumstances. Two sets of capitalists were competing for a franchise to extend their railroads through the mountains to the Delaware Water Gap; one was the Morris and Essex Railroad Company, the other the Warren Railroad Company, headed by Blair and Dodge. Both, in 1851, obtained charters from the New Jersey Legislature within a few days of each

other's grant. In those years scandal after scandal was developed in successive New Jersey legislatures; it was no secret that the railroad magnates not only debauched the Legislature and the common councils of the cities with bribes, but regularly, in true business-like style, corrupted the elections of the State. In 1851, for instance, the only candidates balloted for by the Legislature for the post of United States Senator were rival railroad nabobs; the very same men who, it was notorious, had for years been bribing and corrupting.

Which of the two sets would succeed in building its railroad extension first? The Legislature had accommodated both with charters for the same route; in that respect they were on an equal footing. But Blair and Dodge completely outwitted the Morris and Essex set, and went on to claim prior rights for their lines. The Morris and Essex Railroad Company charged fraud and went hotfooted into court after an injunction, which temporarily it obtained. The case came up for final adjudication in the New Jersey Court of Chancery in 1854. The Morris and Essex group asserted that they had bought the right of way through the Van Ness Gap, and charged Blair with taking fraudulent possession of these lands for the purpose of "fraudulently frustrating the complainants in the extension of their road"; that the survey made by Blair and Dodge was fraudulent, and that there were other frauds. In his answer Blair put in a general denial, although he admitted that the Morris and Essex Railroad Company had bought the land and received deeds for it, but averred that this took place after the lands had been conveyed to the Warren Railroad Company. Each side charged the other with fraud; undoubtedly the assertions of both were cor-

rect. Judge Green decided in favor of Blair and dissolved the injunction.<sup>2</sup> Subsequently the Warren railroad was unloaded upon the D. L. & W. at a great profit.

#### CHARGES OF JOBBERY AND GRAFTING.

At first, the relations among Blair, the Phelpses and Dodge must have been of that brotherly unity springing from the satisfactory apportioning of good things. Previous to 1856, the annual reports of the board of managers of the Delaware, Lackawanna and Western Railroad Company breathed the most splendid harmony, with never a ripple of discord. As president of the company, Phelps had appointed Blair the land agent for the Warren division of the railroad.<sup>3</sup> Very evidently a joyous, comfortable spirit of satisfaction with the way things were progressing pervaded this stalwart group of worthies.

Suddenly the tenor of their private and public communications changed. Peppery statements, growing into broadsides, were issued, filled with charges and counter charges, and a caustic quarrel set in over the question of graft, especially in connection with the Warren railroad. On September 9, 1856, Phelps resigned from the presidency, and in doing so, practically charged others of the directors with carrying on a profuse sys-

<sup>2</sup> New Jersey Equity Reports, ix:635-649.

The chief owner of the Morris and Essex Railroad was Edward A. Stevens who, for many years, blackmailed a competing line, the New Jersey Transportation Company, and who, when that company finally refused to continue to pay blackmail, bribed, it was charged, the New Jersey Legislature to pass retaliatory measures.—See Chapter vii of present volume.

<sup>3</sup> "Second Annual Report of the Board of Managers of the Delaware, Lackawanna and Western Railroad Company, 1855":8.

tem of grafting in the purchase of land, supplies and branch lines.

Did Phelps resign as a protest? More probably, the actual situation was that the internal fight sprang up over difficulty in adjusting the division of the spoils, and the anti-Phelps faction had proved itself the stronger. Phelps set forth his case in published confidential statements accompanying the annual reports. He boasted that after the franchises of the Delaware, Lackawanna and Western Railroad had been forfeited for non-compliance, that it was he who had got through an act on April 2, 1885, "restoring all franchises and granting other important privileges." He complained of the exorbitant expenditures the directors were making, and significantly pointed out that when he had wanted to get an auditor, Blair and other directors refused to vote for one. Referring to the process of graft Phelps wrote that "one of our managers [Blair] is a director and large stockholder in the Lackawanna Iron and Coal Company; one-eighth owner in the Lehigh and Tobyanna Land Company; largely interested in real estate along the line of the road and president of the Warren railroad, of which his son is a principal contractor. Another son is director and very large owner in the Lackawanna Iron and Coal Company," etc.<sup>4</sup> In another confidential circular, dated January 17, 1857, Phelps criticized Blair as "one of the parties more particularly referred to" and as "systematically opposed to my measures." If this much came out in cold type, what must have been the whole story? The fragmentary visions we get in these reports are undoubtedly

<sup>4</sup> "Confidential Statement to the Stockholders of the Delaware, Lackawanna and Western Railroad Company, 1856": 6.

but an index to the elaborate miscellanies of graft carried on by Blair in every available direction.<sup>5</sup>

#### BLAIR'S RAILROADS IN THE WEST.

Blair's loot in these transactions appears to have been very large. His operations were so successful that he went into railroad founding as a regular pursuit; and, as did Sage, he combined professional politics and business. His greatest opportunities came when the Union Pacific and other railroad charters, subsidies and land grants were bribed through Congress.

"In the early days of the settlement of the great West," wrote one of his puffers, "Mr. Blair found ample opportunity for the exercise of his rare judgment and untiring energy, and his name was connected, either as a builder or director, with not less than twenty-five different lines." What a symmetrical and appealing description! All that it lacks to complete it are certain trivial details, which will here be supplied.

As one of the original directors of the Union Pacific Railroad, Blair shared in its continuous and stupendous frauds. But it was in Iowa that he plundered the most of his tens of millions — Iowa with its fine pristine agricultural lands, among the richest in the United States.

<sup>5</sup> Grossly pliable as the law has been, where capitalist interests have been concerned, nevertheless the law has long professed to recognize the fundamental principle that it was against public policy to let contracts for the construction of a railroad to a director or officer of the company. "All such contracts," says Elliott, "are regarded with keen suspicion, and, at least in the absence of good faith, are voidable, or, according to some authorities, void, upon the clearest principles of public policy." (See Elliott on Railroads, ii: 839-840.) This sounds well in theory, but in practice the courts have invariably found grounds to sanction these frauds.

While Sage was busily engaged in thefts and expropriations in Wisconsin and Minnesota, he was also, as was Blair, pursuing precisely the same methods in Iowa. There was the same bribery of Congress and of Legislature; the same story of immense subsidies and land grants corruptly secured; \* the same outcome of thieving construction companies, looted railroads, the cheating of investors, bankruptcies and fraudulent receiverships. Not less than \$50,000,000 in subsidies in one form or another were obtained by the railway companies in Iowa; their land grants reached almost 5,000,000 acres. In the projection of the railroads in that State, Blair was the predominating — almost, excepting Sage, the exclusive — figure; he seemed to direct everything; and he certainly allowed no one else to pocket what he could get away with himself.

#### THE SIOUX CITY AND PACIFIC FRAUDS.

One of a number of his railroads was the Sioux City and Pacific — a line with a very ambitious name but of modest length. Its charter, subsidies and land grant were obtained by Blair at the auspicious and precise time

\* "The first land grants made by Congress," wrote Governor J. G. Newbold of Iowa, in his annual message in 1878, "were turned over to the companies absolutely, although the act of Congress contemplated the sale of the lands by the State as earned, and the devotion of the proceeds to the construction of the railroads; the companies were permitted to select the lands regardless of their line of road; and they were allowed, virtually, their own time to complete the work, notwithstanding that one main object of the grants was to secure this completion at an early day.

"Townships, towns and cities have been permitted to tax property within their limits to help build the roads, and the revenue thus derived was turned over absolutely to the companies constructing them, while much of the property of these companies practically escapes municipal taxation." — Iowa Documents, 1878, Reports of State Officers: 27.

when the Union Pacific measures were passed by bribery.

Whether, however, Blair used money in corrupting Congress is not to be determined from the official records. But if he did not, he, at any rate, employed an even more subtle and effective mode of corruption. The Congressional investigations reveal that it was his system to debauch members of Congress with gifts of stock in his corporations;<sup>7</sup> these honorable members, of course, mightily protested that they had paid for it, but nobody believed their excuses. Poor's Railroad Manual for 1872-73 additionally reveals that among the directors and stockholders of Blair's railroads were some of the identical members of Congress, both of the House and Senate, who had advocated and voted for the charters, subsidies and land grants for these railroads.

For the Sioux City and Pacific Railroad Blair secured a land grant of one hundred sections, and \$16,000 of Government bonds, for each mile of railroad. What happened next? Act two was the organization of a

<sup>7</sup> See Credit Mobilier Reports. These are full of testimony attesting the buying up of members of Congress by this method.

His chief accomplices in this work in Congress were William B. Allison and Oakes Ames. As Representative, and later United States Senator, from Iowa, Allison was long a powerful Republican politician. Ames (as we have seen) was one of the principal originators and manipulators of the great Credit Mobilier swindle (see Chapter xii, Vol. ii). The fact that Allison and Ames were both officers of the Sioux City and Pacific Railroad Company at the same time that they were members of Congress was well known before the act of 1868 was passed. On December 15, 1867, Blair certified to Hugh McCulloch, United States Secretary of the Treasury, that the following officers of the company had been elected on August 7, 1867: John T. Blair, president; William B. Allison, vice-president; John M. S. Williams of Boston, treasurer, etc. The Executive Committee elected on that date was composed of Blair, Ames, Charles A. Lambard, D. C. Blair, and William B. Allison.—See Ex. Documents, Nos. 181 to 252, Second Session, Fortieth Congress, 1867-68, Doc. No. 203.

construction company modeled on exactly the same lines as the Credit Mobilier. As the head of this company, Blair extorted large sums for building the railroad. On the prairies of Iowa, with almost no grading necessary, railroad building called for comparatively little expenditure. Expert testimony before the Pacific Railroad Commission, in 1887, estimated that the road could have been built at a cost of \$2,600,000, with the supplementary statement (and what a commentary it formed upon the business standards of the times!) that if *honestly done* the entire cost ought not to have exceeded \$1,000,000.

#### 'A LITTLE ITEM OF A \$4,000,000 THEFT.'

What did Blair's company (which was mainly himself and his sons) charge? It awarded itself \$49,865 a mile, or a total of more than \$5,000,000. Then having bled the railroad into insolvency, Blair enriched himself further by selling it to the Chicago and Northwestern Railroad Company. If there be any doubt of the cool deliberation with which those "eminent capitalists" set out to swindle the Government, it must, perforce, be dissipated by consideration of the following fact: "When the negotiations were pending for the transfer of the stock of the Sioux City and Pacific Railroad Company to the Chicago and Northwestern," reads the report of the Pacific Railroad Commission, "John I. Blair offered a resolution, which appears on the minutes, setting forth that the Chicago and Northwestern must bind itself to protect every obligation of the company except that to the United States Government."<sup>8</sup> This was a refreshingly candid way of arranging swindles in advance.

<sup>8</sup> Pacific Railroad Commission, i: 193.

And, in fact, the final swindling of the Government of much of the funds that it had advanced was accomplished in 1900. By an act then lobbied through Congress, the company was virtually released from paying back more than one-tenth of the sum it still owed the Government.<sup>9</sup>

#### ANOTHER RAILROAD PLUNDERED.

But Blair's frauds in the inception and construction of the Sioux City and Pacific and some of his other roads were surpassed — in degree, at least — by those he put through in another of his Iowa railroad projects — the Dubuque and Sioux City line. The charter and land grants of this railroad, and those of the Iowa Falls and Sioux City Railroad, were given by an act passed by Congress on May 15, 1856. We have seen what indiscriminate corruption was going on in Congress in 1856 and accompanying years; how the Des Moines River and Navigation Company's land grant was obtained by bribery, and how committees were reporting the existence of corrupt combinations in Congress. There is no definite official evidence that the charter and land grants of the Dubuque and Sioux City Railroad Company and those of the Iowa Falls and Sioux City were secured by bribery, but judging by the collateral circumstances attending the passage of other bills at the same time, the probabilities are strong that they were. By the act of 1856 these two companies received as a gift about 1,200,000 acres of public land in Iowa.<sup>10</sup> Despite

<sup>9</sup> Allison, who, as a prominent member of the House, had been implicated in Blair's briberies nearly forty years before, was now one of the leaders in the United States Senate. This was the man at whose death the newspapers eulogized as a "great constructive statesman."

<sup>10</sup> The act of May 15, 1856, gave a total of 1,233,481.70 acres

this lavish present, the incorporators made little or no attempt to build the entire railroad; they occupied themselves almost solely with stockjobbing, and with the business of profitably disposing of the land to settlers. Congress was compelled under pressure of public opinion to forfeit much of their land grant.

#### CORRUPTING OF CONGRESS.

Blair saw what glorious opportunities had been lost by the act of forfeiture. But the mischief could be undone. If one set of capitalists were obtuse enough not to know how a restoration could be brought about, he knew. So he came forward, took up the companies as his own, and applied to Congress and to the Legislature of Iowa for a resumption of the rights and grants of which they had been shorn.

He succeeded; both Congress and the Iowa Legislature passed acts in 1868 restoring the rights and land grant. How came it that he encountered no obstacles in his plan? Why were these legislative bodies so tractable? Of course, they could plead that they simply acted in deference to memorials from the citizens of Iowa; but memorials were transparent affairs, easily manufactured. And the "Wilson Committee" (the Credit Mobilier Investigation) of 1872 could make its whitewashing report that "no evidence could be found" of money having been used for "improper purposes,"

to the Dubuque and Sioux City Railroad Company and the Iowa Falls and Sioux City Railroad Company. By the same act the Iowa Central Air Line and the Cedar Rapids and Missouri River Railroad Company received a total of 783,096.53 acres, supplemented by 347,317.64 acres by act of June 2, 1864. The acts of May 15, 1856, and June 2, 1864, also gave extensive land grants to the Chicago, Rock Island and Pacific Railroad Company.

either in Congress or in the Iowa Legislature. But the testimony before this very committee flatly contradicted its conclusions. It was revealed that a whole string of conspicuous members of Congress had suddenly become large stockholders in the Dubuque and Sioux City Railroad.<sup>10a</sup> Upon getting the restoration of the land grant, Blair organized a construction company, called the Sioux City Railroad Contracting Company, and by the usual cumulative system of frauds in construction work, made immense "profits," reaching many millions of dollars. Some of the railroads that Blair plundered are now parts of the Illinois Central system, of which Harriman became dictator.

It must not be thought, however, that outright bribery was always resorted to in order to secure subsidies, special rights and immunities. In the first stages of railroad history direct bribery was the usual means; but as time wore on, the passing of money in direct forms became less frequent, and a less crude, finer and more insidious system of bribery was generally substituted. The Western magnates began to follow the advice of that Eastern magnate who declared that it was easier to elect, than to buy, a legislature.

#### BRIBERY BY MONEY AND OTHERWISE.

The newer system as it was carried on in Iowa and other states was succinctly described in 1895 by William Larrabee, erstwhile Governor of Iowa. "Outright bribery," he wrote, with a long and keen knowledge of the facts,

<sup>10a</sup> See the section of the Credit Mobilier Reports entitled "Credit Mobilier and Dubuque and Sioux City," in which the details are set forth.

is probably the means least often employed by corporations to carry their measures. . . . It is the policy of the political corruption committees of corporations to ascertain the weakness and wants of every man whose services they are likely to need, and to attack him, if his surrender should be essential to their victory, at its weakest point. Men with political ambition are encouraged to aspire to preferment, and are assured of corporate support to bring it about. Briefless lawyers are promised corporate business or salaried attorneyships. Those in financial straits are accommodated with loans. Vain men are flattered and given newspaper notoriety. Others are given passes for their families and their friends. Shippers are given advantages in rates over their competitors. The idea is that every legislator shall receive for his vote and influence some compensation which combines the maximum of desirability to him with the minimum of violence to his self-respect. . . . The lobby which represents the railroad companies at legislative sessions is usually the largest, the most sagacious and the most unscrupulous of all. In extreme cases influential constituents of doubtful members are sent for at the last moment to labor with their representatives, and to assure them that the sentiment of their districts is in favor of the measure advocated by the railroads. Telegrams pour in upon the unsuspecting members. Petitions in favor of the proposed measure are also hastily circulated among the more unsophisticated constituents of members sensitive to public opinion, and are then presented to them as an unmistakable indication of the popular will. . . . Another powerful reinforcement of the railroad lobby is not infrequently a subsidized press and its correspondents.

But the robbery by means of construction companies in his numerous railroad projects formed only a part of the wealth grasped by Blair. One-eighth of the entire domain of the richly fertile State of Iowa was granted to railroads, most of which Blair owned. This reached an area almost as large as the State of Massachusetts. Settlers were compelled to pay an exorbitant price for farm lands, and very often were under mortgage to the railroad companies. A detailed description of Blair's

methods would be simply a repetition of those described in previous chapters in the case of other magnates.

#### PHILANTHROPY COMPARED WITH FACT.

Although incurably stingy in personal expenditures — the meanest of men — Blair donated just enough money to procure the award of being an extremely pious philanthropist. He founded one hundred churches in the West; he established a Presbyterian Academy at a cost of \$150,000, and gave several hundred thousand more dollars to the Presbyterian Church. But what were the effects of his frauds and oppressions and those of his successors upon the very people to whom he so devoutly contributed pulpits and gospels? Writing of the Iowa railroads, Dr. Frank H. Dixon, a conservative writer, says:

The roads had it in their power to make and unmake cities, to destroy the businesses of individuals, or to force their removal to favored points. The people were quickly up in arms against this policy. The flame of opposition was fanned by the bitter feelings aroused through absentee ownership, so prevalent in the Western States at this time. A well-settled conviction possessed the people that the owners of capital, directing their operations *in absentia* and through intermediaries, limited their interest in Western affairs to the amount of dividends which they could squeeze from the shippers.<sup>11</sup>

And, of course, the large amounts of watered stock, upon which these dividends had to be paid, were issued to cover the gigantic frauds of the railroad constructors and of succeeding groups of manipulators.

This, in outline, was the course of Blair, so eminent and exalted a capitalist; here is an elucidation of the

<sup>11</sup> "State Railroad Control, With a History of Its Development in Iowa": 24.

fine textures of his "rare business instincts"; and knowing it, the mystery of where his sixty or ninety millions came from is quite apparent, if not entirely clear.

What Blair and others were doing in the North and West before, during, and after the Civil War, John W. Garrett and Johns Hopkins were doing in Maryland. Scarcely referred to now, Garrett was extolled in his day as a "famous railroad king"; and in this case it is not the man so much nor the Garrett fortune which commands interest as is the story of the railway line that he and Hopkins largely owned; this property forms to-day one of the great transportation systems of the country.

#### THE BALTIMORE AND OHIO BUILT BY PUBLIC MONEY.

As were other railroads, the Baltimore and Ohio Railroad was built almost wholly with funds granted by State, counties and municipalities. In 1827 the State of Maryland granted a subscription of \$500,000 as first aid, and the city of Baltimore the same sum. At the outset the projectors loftily disclaimed any intention of asking any further grants of public aid; private capital, said they, would construct the road. But seven years later they made another inroad upon the public treasury; the State of Maryland was induced to subscribe \$3,000,000 more in 1835, and the city of Baltimore \$3,000,000 in 1836. In 1838 they obtained \$1,000,000 from the city of Wheeling.<sup>12</sup> For a while they were discreet enough to refrain from again attacking the public treasury; but

<sup>12</sup> Laws, Ordinances and Documents Relating to the Baltimore and Ohio Railroad Company; 1840: 67, 108, 133, 134, etc.

when, in 1850, they applied to the Common Council of Baltimore for \$5,000,000 more, and obtained the amount, there was some questioning as to what had become of the many millions contributed from the public exchequer. A considerable part, it was evident, had been used in constructing the railroad, but opinions were freely expressed that the directors had been enriching themselves by the customary grafting devices of the day — such as, for instance, those used by Blair in New Jersey, Pennsylvania and New York.

Whenever, however, opposition to additional appropriations sprang up and embarrassing questions were asked, the directors would have their glittering arguments ready. "See what a great work we have been carrying on. Is this not an enterprise of the greatest importance to the whole community, to the farmer, the mechanic and the business man? Now, when we are on the high road to completion, shall we have to suspend because of lack of funds? Would not this be a great public calamity?" Such arguments told with the public; and the legislatures and common councils, corruptly influenced, could always base their explanations upon them.

#### GARRETT AND HOPKINS GET CONTROL.

Plundered by the original clique, the Baltimore and Ohio Railroad went into financial ruin. Notwithstanding the great bounties that it had received, it was in a demoralized condition in 1856, and its treasury was empty. Garrett and Hopkins, who had long been associated with it and who had probably shared in the loot (although there is no specific proof on this point), bought up more quantities of its stock, then selling cheap, and snatched control. Born in Baltimore in 1820, Gar-

rett was the son of a rich shipping merchant; Hopkins had made money in the grocery business.

Garrett and Hopkins not only continued the long prevailing frauds, but put through many other fraudulent and corrupt acts. Here, for example, is one of the smaller frauds: The millions of stock subscriptions donated by the State of Maryland for the building of the Baltimore and Ohio Railroad had been to a large extent floated in London among British capitalists. The interest had to be paid by Maryland to these financiers in gold. Did the company, on its part, reimburse the State in coin? By no means. It claimed, by force of certain judicial decisions, that it was not required to pay interest to the State otherwise than in currency. Under the prevailing money conditions, and estimating the difference in rates of exchange, this form of payment meant a constant loss to the State of Maryland—a loss reaching more than a total of \$400,000, of which amount the Baltimore and Ohio cheated the State.

Far greater were the amounts of which the State of Maryland was cheated in the fraudulent manipulation of what was called the Washington Branch of the Baltimore and Ohio Railroad. In return for franchises and aid, the company agreed to pay the State one-fifth of the passenger receipts. After the branch was in successful operation, its treasury was constantly represented as so sickly that there was no money in hand with which to pay the State. Time after time inquiries were made by honest legislators as to where the great profits had gone. No satisfactory answer was ever given; the State was absolutely cheated; and, finally, a corrupt act was passed practically abandoning all of the State's claims.

Under Garrett and Hopkins' control, the Baltimore

and Ohio Railroad Company caused a series of measures to be passed exceeding in corruption, in some respects, those put through by Commodore Vanderbilt in New York. Repeatedly the legislatures of Maryland, Virginia, West Virginia, Pennsylvania and other States, and the common councils of many cities, were bought up, and the courts were thoroughly subverted. Franchises of inestimable value were given away; the public treasury was cheated out of the sums advanced, and was drawn upon to pay the expense of improvements; large stock watering issues were authorized, and the company was virtually relieved from taxation. By 1876 fully \$88,000,000 of its property went untaxed.

The militant object of Garrett and Hopkins was the destruction of the Chesapeake and Ohio Canal as a competitor. As Commodore Vanderbilt in New York found the Erie Canal to be a competitor of his lines, so Garrett and Hopkins decided that they could not get a monopoly of transportation in Maryland until the Chesapeake and Ohio Canal had been extinguished as a competitor. The obstacles in their way were great, for the State of Maryland had expended many millions of public money in the construction of the canal, and owned it, and the public was not disposed to see its usefulness impaired. This was especially true of the merchant class, which demanded competition and insisted that monopoly would be ruinous.

#### DESTROYING CANAL COMPETITION.

Beginning in 1860, Garrett and Hopkins corrupted the Maryland Legislature, until by one act piled upon another, they were gradually able to wrest away its ownership from the State. But they did not merely de-

pend upon the bribing of legislators after they were in office. With money supplied by Garrett and Hopkins, the political bosses of Maryland engaged in packing of primaries, indiscriminate bribery of voters and stuffing of ballot boxes, thus insuring the election of subservient officials. Once the canal was practically in their hands, Garrett and Hopkins made it useless as a competitor.

Having a complete monopoly they now exacted extortionate charges for transportation, and they likewise increased their profits by cutting the pay of their employés. In desperation, the railroad workers declared a strike in 1877. False reports of the violence of the strikers were immediately dispatched broadcast. Using these charges as a pretext, the military was called out. At Martinsburg, W. Va., the State militia refused to fire upon the strikers, but a company of militia, recruited from a class hostile to the strikers, opened fire, killing many of the strikers and wounding others.

#### HOPKINS BECOMES A PHILANTHROPIST.

Both Garrett and Hopkins extorted out large sums from their control and manipulations of the Baltimore and Ohio Railroad. Hopkins' fortune, at his death, amounted to nominally \$10,000,000. At the time of his demise, in 1873, he was "the wealthiest citizen of Baltimore." The most closefisted of men, he relaxed in at least one respect during the last year of his life. Following the example of so many other multimillionaires of the period, he made certain of the perpetuation of his memory as a "great philanthropist." To this end, in March, 1873, he gave property valued at \$4,500,000 with which to found a hospital in Baltimore; he presented Baltimore with a public park, and he donated \$3,500,000

as an initial benefaction for the founding of the Johns Hopkins University. Here it is pertinent to inquire what was the form of property given in these bounties. Very largely, it consisted of Baltimore and Ohio Railroad stock; it was property representing the corruption of public life, the abasement of the workers and the general spoliation of the entire community.

And what was Garrett's share of the proceeds of the joint control? At his death, in 1884, it was said to be \$15,000,000, but it was undoubtedly much more. This wealth descended to his son Robert, who went through a series of personal excesses, to wind up in melancholia and softening of the brain. Obviously enough, he was no match for those abler capitalists, the Vanderbilts, Goulds and Scott;<sup>18</sup> they pounced upon him and ruthlessly despoiled him as his father had despoiled others; his autocratic power and sway gradually vanished. When he died, in 1896, his wealth had shrunk to about \$5,000,000, and the Baltimore and Ohio system had passed under the control of the Pennsylvania railroad group of magnates.

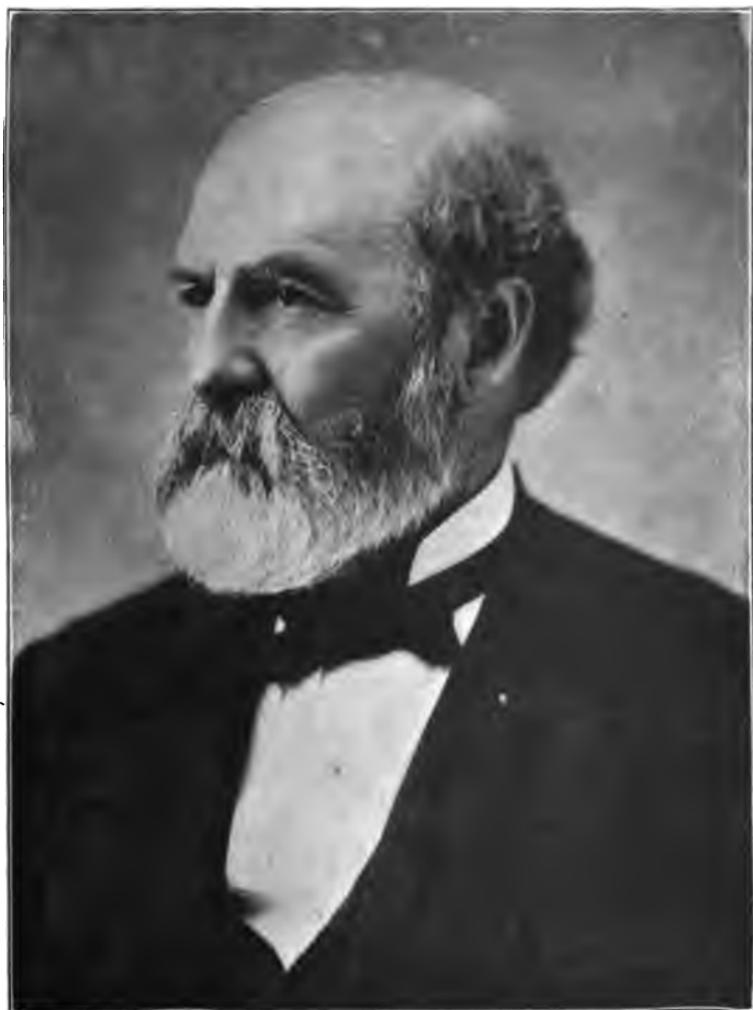
<sup>18</sup> A current story, frequently published, was to this effect: That Robert Garrett had secretly consummated negotiations for the purchase of the Philadelphia, Wilmington and Baltimore Railroad, and the night before the final arrangements were to be made invited a friend to celebrate the occasion. When bibulous from champagne, Garrett revealed the secret. The friend excused himself, went immediately to Scott, of the Pennsylvania Railroad, and informed that magnate. Scott at once filled a satchel full of bonds, and hurried away to make an offer to the capitalists controlling the Philadelphia, Wilmington and Baltimore Railroad, outbid Garrett, and had secured the ownership of that railroad for the Pennsylvania system almost before Garrett had awakened from his drunken stupor.

## CHAPTER VI

### THE PACIFIC QUARTET

During the range of years when the Vanderbilts, Gould, Sage, Blair and various other railroad magnates were hurling themselves upward into the realms of masterful wealth, four other noted capitalists whose careers were interjoined, were doing likewise in the Far West.

This group was composed of Collis P. Huntington, Leland Stanford, Charles Crocker and Mark Hopkins. It was an unusual brotherhood in that, for a long time, they hung together with a tenacious fidelity not often found among railroad capitalists. In fact, it was so rare a phenomenon that the mention of it deserves a place of supreme precedence. Such magnates as Commodore Vanderbilt and William H. Vanderbilt, Gould and Sage, preferred to go it alone, not merely satisfied with the lion's share, but determined to bag it all, if they could; they were distrustful and intolerant of partners except as expediency demanded, and then they acted with them only to fleece them eventually. The Pacific quartet were also starkly individualistic, each for himself, but they moderated their propensities enough to fuse their interests in a common harmony of aim. Even more: they sagaciously weighed the special fitness of each, assigned the duties according to this individual appraisement, and divided the spoils with a certain flavor of fairness.



**COLLIS P. HUNTINGTON.**



So far as railroad magnates were concerned, this was a remarkable feature of their time.

#### FOUR MEN WHO COULD ACT TOGETHER.

In fine, this group was distinguished by a method of intelligent coöperation. To this fact was due, in a measure, their rapid success in obtaining great wealth without the necessity of dragging through intermediate stages. They were among the first of the magnates to prove the superiority of the principle of systematic organization—a lesson which the Standard Oil group took up a little later, amplified, improved, and developed into a superfine system. Here was not a case of where one man dominantly insisted that he alone was endowed with all of the functions required in successful business. The Pacific quartet recognized the value of specialization. In a general way, Huntington was intrusted with the supervision of the financial affairs; Stanford of the plans for the manipulation of law and politics; Crocker was placed in charge of the construction work, and Hopkins was the commandant of office details. The particular useful qualifications of each of the four were mutually appreciated and availed of. In addition to this division of overseership, all joined together as a unit in the promotion and consummation of their plans.

Circumstances did not compel these four men to be of quite the same revolutionary type of capitalists as the Vanderbilts and Goulds. They did not have to do much pummeling of smaller capitalists, nor expend much effort in beating down the sacred doctrine of "free and unrestricted competition." Their territory was largely one

which had not been taken up by companies of small capitalists, building in piecemeal fashion. They had the opportunity of bringing forth great railroad systems out of what had been a void. At a bound they sprang from an obscure position to that of great capitalists; the transformation from petty dealers in merchandise or law to multimillionaires was a quick, sudden one. Within a few years they took their place among the industrial dictators of the United States; owners of great railroad and steamship lines and of many other forms of property, and of an immense domain of land — not less than 30,000,000 acres in all. All of these men have passed away, but the wealth that they became possessed of remains; and even if their personal careers are of no lingering interest, their fortunes are still active, and the history of their properties is of very pertinent present importance.

#### THEY BEGIN WITH SCANT CAPITAL.

All four had migrated from the East to California after the discovery of gold on the Pacific Coast. There Huntington carried on a hardware and miners' supply store at Sacramento, and Hopkins became his partner; Crocker was likewise a small merchant, and Stanford was a lawyer. The four were not able to scrape together a pool of more than an insignificant sum with which to execute what was then considered one of the greatest and most difficult railroad projects of modern times.

The phrase monger is addicted to rhapsodizing upon the marvelous self-confidence which could initiate a huge railroad line with only a trivial sum as a starter. This may be a romantic way of describing their prowess and

ingenuity. But neither was the project itself of their conception, nor did they have to supply the funds. Years before they took hold of the work as a definite undertaking, the building of Pacific lines had been agitated and urged, and the Government had surveyed feasible routes.<sup>1</sup> Not one of the quartet knew anything of railroad construction, nor had the least fundamental knowledge of how to equip and operate a railroad.

In what direction, then, lay their ability? Purely and wholly in the line of promoting. The capitalist system was of such a fantastically inverted nature that to grasp the ownership of anything did not imply or require the ability of supervision. Railroads, factories, mines and public utility systems were generally owned by men — often by absentees — who knew nothing of any aspect of them except the one all-important phase — the budget of profit or loss.

The ability of the promoter was the most necessary consideration, although not the foremost in insuring the title of ownership. Very frequently, in the case of factories and mines, promoters had to get funds from banking houses, which usually, by skillful law work, succeeded in getting those promoters into a legal snare, forcing them out, and expropriating their property. Railroad promoters, however, did not have to depend so much upon private bankers. They could draw upon Government, State and cities for advances of money. If a man, or a set of men, could succeed in bribing Congress and the legislatures to donate land grants and advance the funds, it was a very simple matter to hire highly competent civil engineers to survey and build the

<sup>1</sup> By an act of March 3, 1853, Congress appropriated funds for the surveying, by the Army Corps of Engineers, of railroad routes from the Mississippi River to the Pacific. The results were published in 1855.

routes, and employ good executives to run them after they were built.

The first and prime necessity was the purchase of legislation with its corollaries — franchises, gifts and free access to the public treasuries. This done, the remainder of the program was easy. In this regard it was that Huntington and his partners showed their finesse — not an unusual finesse, by any means; its caliber was neither more nor less than that of many another capitalist, who also had been adroit in bribing legislation through.

Upon organizing the Central Pacific Railroad Company in 1861, the Huntington group could not privately raise more than about \$195,000, of which amount they, themselves, put in about \$50,000. This sum, ridiculously inadequate to build a railroad estimated to cost \$25,000,000, was, however, enough and more than enough, for certain well-understood primary operations.

With it expenses could be defrayed at the centers of legislation; petitions and memorials concocted; advocates paid, and newspapers subsidized. If the trick were well turned, a whole succession of franchises, special laws, land grants and money subsidies would follow. Thus we see that the original capital needed in many capitalist enterprises was not for the actual prosecution of the work, but for the purpose of bribery. In fact, money, as an absolute requirement, could be dispensed with. For their votes, legislators (being wily, tactful and practical men) much preferred cash, but when cash could not be fingered, they conveniently took whatever "inducements" were offered. We have come across instance after instance in which embryo capitalists organized corporations, rolled off stocks and bonds (which

cost the expense of engraving only) and used them, in lieu of cash, as payment for legislative votes.]

If the average railroad corporation, argued the Pacific quartet, could so easily, by the simple media of bought laws, annex itself to public treasuries, what could not they do? A far more telling and impressive public argument the Huntington group had than most of their fellow railroad promoters. Already "in the fifties" there was an insistent, genuinely enthusiastic popular demand, reaching almost the proportions of a clamor, for railroad connections between coast and coast. Upon the strength of this eagerness, much bounty and booty could be extracted. At the outbreak of the Civil War the demand became irresistibly intensified by the lack of speedy intercoastal communications, both railroad and telegraph. Moreover, the popular imagination was captivated and dazzled by the immensity of the undertaking. With prevailing opinion in so favorably an assenting state, matters could be pliably molded.

#### THEY GET THEIR LAWS.

Yet while the people, as a whole, were desirous of Pacific railroads, considerable sections of them were by no means reconciled to the corrupt legislative methods of presenting large areas of land and large advances of money for private enrichment.

The farmer, burdened by the price that he had to pay for his small farm, and often blanketed by a mortgage, did not quite approve of the squandering of the public domain for the benefit of a law-created handful of grandees. The small traders, resenting the very idea of any class above them, bitterly objected, as a class, to great capitalists being created by virtual edict of law.

The alert and organized sections of the working class saw in this constant manipulation of legislative bodies another perversion of governmental power for the aggrandizement of a small and hostile class, and the rapid impetus to an overshadowing plutocracy. Aware of this general feeling, legislative assemblies had to be "induced"; they might themselves use fine-sounding and seemingly solid arguments in explaining to constituencies; but a very different incentive appealed to them; settlements had to be made in cash or its equivalent.<sup>2</sup>

A more temptingly opportune time for spoliative meas-

<sup>2</sup> The California Legislature was frequently charged with corruption, but its farcical investigations of itself always resulted in whitewashing reports.

One of these scandals was that of April, 1861, when John F. McCauley charged that legislators had sought bribes from him to pass a claim that he held against the State of California. The Legislature appointed an investigating committee on April 18, 1861. (See Appendix to Journal of California Assembly, Twelfth Session, 1861, Doc. No. 15). McCauley testified that one Wittgenstein, a go-between for Chairman Walden of the Assembly Committee on Claims, approached him and told him that for a favorable report Walden wanted \$400 or \$500 (pp. 2-4). In his testimony Wittgenstein admitted telling McCauley that Walden had made \$7,000 or \$8,000 in that way; he also admitted saying that Walden had made a large amount of money during the session. Wittgenstein substantially admitted the truth of McCauley's charges (pp. 5-11). The report, however, was a whitewashing one.

Another scandal was when the editor of the newspaper, the "American Flag," specifically charged, in 1866, that a fund of \$108,000 had been expended in the Legislature by local bankers, commission merchants and importers to prevent the repeal of a law called the Specific Contract Act. He accused seven Senators of having sold their votes for \$12,000 each. An investigating committee of the California Senate was appointed. One of the witnesses examined was Darius O. Mills, then a San Francisco banker, and later a prominent New York multi-millionaire. He and other witnesses denied knowing anything of a corruption fund. The committee's report exonerated the accused.—"Report of Senate Committee of Investigation on Certain Charges Made by the Editor of the 'American Flag,'" Appendix to Journal of Senate and Assembly of the Legislature of California, 1866, Vol. ii.

ures than the period of the Civil War could hardly have been found. Engrossed in the tumultuous upheavals of those convulsive years, the people had neither the patience nor disposition to keep close track of routine enactments in Congress or in the legislatures. At the very beginning of that war the Huntington group organized the Central Pacific Railroad Company, with a capital stock of \$8,500,000, nearly the whole of which capital was fictitious so far as actual investment of money was concerned. At once they directed their energies right to the core of things. Huntington betook himself to Washington to lobby in Congress, while Stanford, elected Governor of California, busied himself with similar ends at home. No visionaries were they, but practical men who knew how to proceed straightway.

Stanford's work quickly bore fruit in California; the city of Sacramento was authorized to donate \$400,000; Placer County to loan \$550,000, and the State of California to hand over \$2,100,000. At the same time, Huntington was doing surpassing missionary duty in Congress. An act was passed in 1862 by which about \$25,000,000 in Government six-per-cent. bonds and about 4,500,000 acres of public lands were placed at the disposal of the quartet. The few protests against these great gifts were immediately silenced. "Is not the Government fully protected?" the promoters innocently inquired. "Are not its loans covered by a first mortgage? If the company defaults, cannot the Government step in and recover?" This sounded plausible. Two years later, however, at the very time when (as we have seen) the Union Pacific coterie were corrupting Congress to get greater land grants and altered laws, Huntington again debauched Congress. An act was passed doubling the Central Pacific's land grant and relegating the Govern-

ment's claim on the Central Pacific to the under position of a second mortgage. And, as it turned out later, the contract with the Government was so deftly drawn that, according to a decision of the Supreme Court of the United States subsequently, the Government's lien covered the main lines only, and not the branch lines. Whether this contract, as drawn, was a result of collusion with Government officials was never determined.

"Whence came the means," asks Bancroft, "by which four men with only moderate fortunes were enabled to build, buy, own and operate all the roads belonging to the Central and Southern Pacific systems? In 1869, before the last spike had been driven at Promontory, the railroad quartet, besides owning the road, had received as a loan \$24,000,000 of Government bonds forming a second mortgage on the road, together with \$400,000 of San Francisco bonds as an unconditional gift, \$550,000 of county bonds, and \$2,100,000 paid, or to be paid, by the State of California in return for services to be rendered by the company." \*

The operations of the quartet were simple enough. Once they had obtained the requisite loans and gifts, they threw aside all pretenses, and openly and vigorously set out to defraud all within reach, not only the Federal Government, but also States, counties, cities and investors. First, they organized a construction company, called the Credit and Finance Company. Then they made a contract with themselves to build the Central Pacific. With the aid of the loans given by Sacramento and Placer County, they built enough road to draw \$848,000 from the Government as the subsidy of the first section. By repeating the process they had the entire road constructed, with scarcely the expenditure of

\* "History of the Pacific States," xix:62. Digitized by Google

a single dollar of their own. The next step was to load it down with a capitalization of \$139,000,000<sup>4</sup> which was the beginning of still more stock inflation.

#### A THEFT OF \$50,000,000.

What was the total of their frauds? The report of the Pacific Railroad Commission gives no adequate idea of the immensely valuable rights and possessions of all kinds that they secured by bribery and fraud. But it does give a comprehensive account of their money and stock plunderings. "In the accounts of the Central Pacific Railroad Company," the report of the Pacific Railroad Commission of 1887 states, "the division of earnings for improper purposes amounted to many millions, through contracts made by Messrs. Stanford, Huntington, Hopkins and Crocker with themselves." According to this report, the cost of building 1,171 miles of road was \$27,217,000, but they fraudulently charged three times that sum. Here was a theft of more than fifty millions in one grand haul. In addition to stolen cash, they issued to themselves \$33,722,000 in bonds and \$49,005,000 of stock. But these sums were only part of the total thefts. The Pacific Railroad Commission's report goes on to say:

"Then as directors of the Central Pacific, they took leases of their own lines for the Central Pacific for \$3,400,000 per annum; which was at the rate of nearly thirteen per cent. Fifteen months ago (in 1886) three of these directors (Stanford, Huntington and Crocker) contracted with themselves to build an extension of one hundred and three miles. In payment they issued stock to the amount of \$8,000,000, and bonds to the amount

<sup>4</sup> Hudson's "Railways and the Republic": 265.

of \$4,500,000, the market value of the stock and bonds being at the time \$8,340,000. The actual cost of construction was \$3,505,000, so that they personally profited by their own votes by that single transaction to the extent of \$4,834,000," etc., etc.

#### GROSS CORRUPTION OF CONGRESS.

The process of corruption and theft was continued in the building of the Southern Pacific Railroad.

In 1871 Congress chartered the Texas and Pacific Railroad to run from Marshall, Texas, to San Diego, Cal., and presented the company with approximately 18,000,000 acres of public lands on condition that the road was to be completed in ten years; otherwise the land grant was to be declared forfeited. At the same time, Congress chartered the Southern Pacific Railroad Company to build a line from El Paso, Texas, to San Francisco, and gave it a gift of about 5,000,000 acres of public lands. The Texas and Pacific project was owned by a group of capitalists headed by Scott, of the Pennsylvania Railroad; the Huntington men were at the head of the Southern Pacific Railroad Company.

These two groups of capitalists soon came into collision; each fiercely sought to oust the other, and gain an undisputed monopoly of transportation in the territory in question. The fight was carried into Congress; each side caused the introduction of bills aimed at crippling the other. The contest then narrowed to a question of which group could corrupt Congress the more effectually.

"Scott," wrote Huntington on January 29, 1876, "is making a terrible effort to pass his bill, and he has many advantages with his railroad running out from Wash-

ton in almost every direction, on which he gives Free Passes to everyone who can help him ever so little. . . . It has cost money to fix things, so I know his bill would not pass. I believe with \$200,000 we can pass our bill.”<sup>5</sup>

On March 6, 1876, Huntington wrote that “the Railroad Committee of the House was set up for Scott, and it has been a very difficult matter to switch a majority of the Committee from him, but I think it has been done.” On November 11, 1876, Huntington wrote further to one of his associates, “I am glad to learn that you will send to this office \$2,000,000 by the first of January.” On May 3, 1878, he notified his partners: “The T. and P. folks are working hard on their bill and say they are sure to pass it, but I do not believe it. They offered one member of Congress \$1,000 cash down, \$5,000 when the bill was passed and \$10,000 of the bonds when they got them if he would vote for the bill.”<sup>6</sup>

Huntington came out victorious. “There is no room for doubt,” reported the Pacific Railroads Commission

<sup>5</sup> We have seen, in the narration of the Gould fortune, how Scott had been placed in charge of the Government supervision of railroad transportation during the Civil War, and how a Congressional committee had exposed the immense extortions in conveying soldiers, equipment and supplies that some of the Northern railroads successfully carried on immediately following his appointment.

<sup>6</sup> There were many of these letters; we have already given a glimpse of one of them in Chapter iii, Vol. iii. They came to light (as noted in that chapter) in a lawsuit between two factions. They were published in full in “Driven from Sea to Sea,” by C. C. Post.

“It is impossible,” reported the Pacific Railroad Commission in 1887, “to read the evidence of C. P. Huntington and Leland Stanford and the Colton letters without reaching the conclusion that very large sums of money have been improperly used in connection with legislation.”—Vol. i: 121. Huntington was accustomed to boasting of his method of bribery, “Whenever possible I always try to pay in checks, for the men who take them are ever afterward my slaves.”

of 1887, "that a large portion of \$4,818,535 was used for the purpose of influencing legislation, and preventing the passage of measures deemed hostile to the interests of the company, and for the purpose of influencing elections."<sup>7</sup>

The next thing the Huntington group did was to force the Eastern capitalists out of the Texas and Pacific Railroad, absorb that line into their own system, and illegally grab the eighteen million-acre land grant of the Texas and Pacific. Even under the law, as it stood, the Texas and Pacific was not entitled to the land grant. The House Committee on Judiciary on August 3, 1882, after an investigation, declared that the Texas and Pacific Railroad Company had never completed any part of the route for which the land grant in New Mexico, Arizona and California was given; that it "had never earned the grant"; that it did not purpose to build the road for which it was chartered and endowed, and that it was transferring to the Southern Pacific Railroad Company "all of the rights and titles to the land in question."<sup>8</sup> The Committee on Judiciary prepared a resolution declaring the forfeiture of the land grant, and urged its passage by Congress as a joint resolution. It did not pass.

#### A SUMMARY OF THEIR PLUNDERINGS.

Presenting the general results as nearly as official investigations could ascertain them, this is what Huntington and his associates did: They had received hundreds of millions of dollars in the form of money, bonds and lands from Government, States, counties and mu-

<sup>7</sup> Report of U. S. Pacific Railway Commission, i:84.

<sup>8</sup> House Report No. 1803, Forty-seventh Congress, Second Session.

nicipalities. As controllers of the Contract and Finance Company and other construction companies, they had turned over to themselves \$142,000,000 in all for ostensible construction work. They had expended at least five millions for corrupt political purposes. They had stupendously watered the stock of their railroads, and with the cumulative proceeds of their thefts had secured control of nineteen distinct railway systems and of steamship lines, also. They had, by fraud, robbed the Government of many millions of acres of land; they had defrauded the Government of the bulk of the funds that it had advanced; they refused to pay more than the merest nominal taxation, and they extorted onerous rates for transportation.

This is the general summary of their acts as set forth in the report of the Pacific Railroads Commission. "From the evils of subsidy-giving," says Bancroft,

the country suffered for many years. The population was shifting, the available resources of the State [California] few; but notwithstanding, there was hardly a county in it that by 1870 had not burdened itself with a debt of from \$100,000 to \$300,000 at a high rate of interest, to run in some instances sixty years. Companies incorporated under a general law besieged the Legislature annually to pass acts authorizing the people to vote on incurring this indebtedness; newspapers paraded the benefits to be received from every railroad scheme, often without knowing whether it had any merit. Thus, urged by the Legislature and the press, the people passed under the rod with the greatest equanimity.<sup>9</sup>

Bancroft relates further: "It is a fact in California commercial history that hardly could the reader of a city daily or a country weekly open his newspaper without finding therein some complaint against railroad management, especially applying to freight charges." The

<sup>9</sup> Bancroft's "History of the Pacific States," xix: 564.

railroads were "apt to fix the rates on a given article 'all it would bear.'"<sup>10</sup> This description applied not only to California but to every State and Territory reached directly or indirectly by railroads. The very people whose representatives had given public property so lavishly to a few, were robbed in every manner that ingenuity could formulate. Not only was the public plundered; Huntington and his associates ground out their own lesser stockholders by the same fraudulent methods that Gould and Sage used, and also, like Gould and Sage, they cheated out a horde of confiding investors.

*to hand*

The disillusioning of the people of the Pacific States was reflected in the messages of the various Governors. Only a few years previously, the Governors of California and other States had urged the Legislatures to be extremely generous in donating large bounties to railroad projectors and other capitalists. They wrote rapturously of the great public benefits certain to come from the construction of railroads, and praised the railroad promoters as men of the loftiest public spirit. Soon a decided change came over the spirit of these messages. Bitter complaints of extortion and robbery succeeded glowing encomiums. In his message to the California Legislature, in 1869, Governor H. H. Haight had this to say:

. . . Our land system seems to be mainly formed to facilitate the acquisition of large bodies of land by capitalists or corporations, either as donations, or at nominal prices. . . . Numbers who purchased from the State lands sold as swamp or overflowed, find their farms claimed under the railroad grants, and themselves involved in expensive contests before Registers of Land Offices.<sup>11</sup>

<sup>10</sup> "History of the Pacific States," xix:628.

<sup>11</sup> First Biennial Message, etc., 6.

In his inaugural address, delivered on December 8, 1871, Governor Newton Booth of California expressed himself:

The undue political influence and financial control that many corporations have assumed, is not the only evil presented by them. In their internal administration, between majorities and minorities, directors and stockholders, cases of the grossest injustice are constantly arising. It is not uncommon to find one class of stockholders enriching themselves from a company which impoverishes another. . . . The organization of corporations within corporations is a refinement of subtlety and fraud which should be positively prevented by law.<sup>12</sup>

After describing the Central Pacific Railroad's system of discrimination in fares and freights, "a grievous burden, so long and patiently endured by our people," Governor John H. Kinkhead of Nevada wrote to the Legislature of that State in 1879:

Grave, and I believe well-grounded, complaint is made concerning the valuation of railroad property for taxation. The owners of this species of property are granted exceptional privileges, and should be made to bear their equal part of all of the expenses of Government.

Not one of these messages had any vital result. In some instances they were sincere, but, as a rule, they were intended to be nothing more than wordy sops to appease middle-class public opinion.<sup>13</sup> Some of the very

<sup>12</sup> Inaugural Address of Gov. Newton Booth, etc., 10-II.

<sup>13</sup> The merchants, manufacturers and importers who had applauded and banqueted Huntington and his associates only a few years previously, were now caustically denouncing them, not for their direct thefts, but for their extortions. For example, see "A Petition of the Citizens of San Francisco Relative to the Arbitrary Exactions And Injustices of Railroad Companies." Nearly all of the signers were business firms. They complained, in this petition, of the "arbitrary exactions and injustice of railroad companies," and demanded State regulations.—Appendix to California Senate and Assembly Journal, Twentieth Session, 1874, Vol. iv, Doc. No. 8.

Governors who wrote them with such a display of earnestness were put in power and controlled by the very corporations of which they complained. The legislatures were wholly under the domination of the great private corporations, and the judiciary almost wholly so. Year after year, the different Governors denounced corporate practices, and demanded corrective legislation, which never came. Two and three decades after Governor Newton Booth's denunciation, Governors were still writing similar futile messages.

Acclaimed at first as public benefactors, Huntington and his associates were subjected to the fiercest denunciation when the people realized the enormous frauds that they had committed. For the frauds, of which an epitome has been here given, were only a portion of the total. It is hardly necessary to plunge into the tortuous mass and maze of detail; how they resorted to nimble subterfuges to escape their obligations, and defrauded the Government; how they corrupted and ruled States and Territories, and seized hold of one possession after another; and how, through their control of political machinery, they sent Representatives and Senators to Washington as though they were so many errand boys. The Pacific quartet were among the first of the magnates to come out into the open and exercise political power directly, instead of intrusting it to retainers. To have one of their own members in the United States Senate, there to keep alert for their interests, they caused the California Legislature, in 1887, to elect Stanford to that body.

Hopkins died in 1876, Crocker in 1888. Very characteristic of the peculiarities of prevailing society was one of the ways in which Hopkins' millions were used. His widow inherited his wealth and remarried, and part of

her inheritance went toward the purchase of an old-established New York newspaper. Thus was witnessed, as in the case of Gould, a newspaper being financed by the proceeds of theft, and the inheritors of those proceeds giving directions as to what should constitute the moral and political pabulum fed out to the public. A splendid country mansion, costing \$2,000,000, at Great Barrington, Mass., is a standing explanation of how some more of Hopkins' millions were applied. Crocker left a fortune nominally estimated at \$40,000,000.

Stanford's wealth was so great that he, like the Astors, the Vanderbilts, Goulds and other magnates, was forced to the necessity of investing the surplus. Part of the many millions stolen from the Government and expropriated from the people, was put into San Francisco street railways,<sup>14</sup> of which system he owned a one-fourth share, and from which he derived ten per cent. a year. Other millions were invested in other forms of property. He became a great landed proprietor. He owned the immense Vina vineyard, comprising 100,000 acres of land; the Palo Alto ranch, with its extensive breeding establishment and its great vineyards, and he owned much other real estate in San Francisco and elsewhere. From his stocks and lands he received, it was estimated, an income of \$1,000,000 a year.

Up to 1885 he had been merely a financier, so-called, praised by some as a great railroad builder, by others as a colossal thief. Now he became a full-fledged philanthropist by giving property worth many millions for the establishment of the Leland Stanford, Jr., University.

<sup>14</sup> Recent developments in San Francisco showing how bribery was used in getting street railway franchises are but an indication of the corrupt methods long prevailing.

Thus was another "seat of learning" established to be subjected to the censorship of money.

#### STANFORD IN THE UNITED STATES SENATE.

As a United States Senator, Stanford's salary was \$5,000 a year; he spent \$75,000 every session; it was a pastime of this man to throw twenty-dollar gold pieces to the newsboys. His chief business in Washington was to prevent the Government from taking genuine action compelling him and his band to disgorge; to stifle all hostile proceedings, and to get through laws giving more franchises, land, waterway rights and special privileges, and no interference with extortions. On the whole, he succeeded. This ponderous magnate, weighing two hundred and thirty-four pounds, was the political wire-puller of the quartet, while Huntington was the crafty financier, full of sharp tricks and devious contrivances. When Stanford died, in 1893, his estate was appraised as nominally worth about \$18,000,000, but its size was considerably greater. He had given large sums for the Leland Stanford, Jr., University, and in his will he provided more millions. The remainder of his estate went to his widow, who likewise gave donations to this university; in all, Mr. and Mrs. Stanford presented fully \$30,000,000 for the establishment, expansion and perpetuation of the institution named after their son.

The fortune plucked by Huntington was greater than that of any of the others of the quartet. At his death, in 1900, it was estimated at from \$50,000,000 to \$80,000,000. It embraced interests in a vast number of railroad, steamship and other corporations — interests which he had bought with his share of the Pacific railroads'



**LELAND STANFORD.**



loot, or engineered into his control by fraud. A favorite boast of his at one time was that he could travel from the Atlantic to the Pacific in his own cars and over his own rails, and that he could also, if he chose, sail in his own steamships from Brazil to New York, from thence to Colon, from Panama to San Francisco, and from there to Yokohama and Hongkong. His power was gigantic; he controlled the economic life of millions of workers, and dictated the government of a half dozen States. His plunder was intact. In 1894 he was quoted as saying in answer to a report: "I never made any exhibition of \$44,000,000 of bonds, although I could have displayed twice as much in amount."

#### THEY BECOME ARISTOCRATS.

No intelligent person was unaware of the long and great series of frauds and thefts that Huntington, Stanford, Crocker and Hopkins had plowed through to squeeze their wealth. Yet, while severely denounced, they did not have to meet the same taunts and revilings constantly cast at Jay Gould. Essentially they were of the same stripe as Gould, but Gould was held up to popular maledictions as a railroad wrecker, while criticism of the Huntington group was always tempered with the remark, "Well, if they stole colossal sums, they at least constructed great railways and were big factors in the development of the country." And they had no difficulty in getting instant entree into what was represented as the "best society." No question was raised as to their eligibility. By power of money they at once became a part of the financial aristocracy. Also, by this same power of money, Huntington's adopted daughter

entered with ease the fine circle of European titled aristocracy; she married Prince Hazfeld, in 1889, and received a paternal present of several million dollars.

Huntington lived like a grandee — at least residentially. He had a mansion in San Francisco; a superb place in the Adirondacks, for which he paid \$250,000; a palatial country home at Throgg's Neck, N. Y.; and he built, at an expense of millions, an impressive pile at Fifth avenue and Fifty-seventh street, New York City.<sup>15</sup> — that aristocratic avenue whither so many magnates, after a career of fraud and theft, came to ensconce themselves in befitting grandeur. Eight years were spent in building, at a cost of \$250,000, a mausoleum in Woodlawn Cemetery — a classic, capacious tomb of marble.

#### THEIR LINES TAKEN OVER BY HARRIMAN.

And there his remains now lie. After his death the inventory of his estate showed that his wealth was apparently about \$60,000,000; unquestionably it totalled a much larger sum. His widow, who still lives, inherited the greater part of it. But what became of the control of the railroad and steamship lines which he dominated? His death occurred at about the very time the Standard Oil oligarchy, acting through Harriman and its banking houses, was prepared, in its gradual reaching out for railroad ownership, to buy in the ownership of the Pacific railroad and steamship lines. The great surplus of the Standard Oil treasury easily furnished the many millions needed to buy over the shares held by Mrs. Huntington; and the control of the Southern Pacific and other extensive lines, both railroad and steamship,

<sup>15</sup> But after it was completed he could never be persuaded to live in it. His reason was a belief in the superstition that men build houses only to die in them.

built and sustained by fraud and theft, was taken over by the all-powerful Standard Oil magnates, thus marking one more aggressive step in the assumption of a centralized ownership of the productive and distributing resources of the United States.

## CHAPTER VII

### J. PIERPONT MORGAN'S GENESIS

Did ever a man of wealth lave more in panegyrics than that conquering money hero of these present times, J. Pierpont Morgan? Long since, his fame was trumpeted to the four quarters of the earth. His copious praises have been chanted with an extravagance that in the case of anyone else would have been rejected as turgid. Most mighty patriot and unexcelled public-spirited citizen, great financier and noble philanthropist, marvelous "captain of industry" and conservator of the social structure, friend of kings, and king among men—these are but a selected few of the apotheoses too often seriously accepted by the people at large. One writer in particular, raptly reaching up for a large expression of homage, has touched almost the climax of adoration in emblazoning him, "Morgan the Magnificent."<sup>1</sup>

#### MORGAN'S EXQUISITE REPUTATION.

Many a hired or acquiescent scribe, plying well his trade, has reeled out his effusions; and the total of these has produced a certain settled, aggregate, public opinion which looks up to Morgan with unabated awe and admiration. In the firmament of wealth no man shines out more dazzlingly than he.

If ever there thrived a money potentate whose for-

<sup>1</sup> Under this title, an article by a "popular writer" appeared in "Pearson's Magazine," issue of February, 1908.

tune had been preëminently eulogized as having been acquired by purity of method, that man is J. Pierpont Morgan. Not once has he been subjected to strictures of "tainted wealth," nor at any time has he had to fight an implacable public opinion such as Jay Gould had to in his day, and as Rockefeller has encountered throughout his career. For the last thirty years Morgan has been overwhelmed with laudations of every character. Sporadically, perhaps, some unshackled spirit in Congress or on the public platform might rise to break abruptly in upon this outpouring of flattery by venturing criticisms or revelations. But these irruptions passed idly by, hardly noticed in the general, continuous deluge of encomiums.

The praises, abundant enough, bestowed upon other magnates, have paled beside those heaped upon Morgan. Without question, he has been held aloft as the most extraordinary financier of all. His feats in this regard have been recounted as though they bordered upon the miraculous. As a railroad and industrial magnate he has been interminably glorified. But fully as much so has he been held up to the world's admiration as a philanthropist and a man of versatile parts and benevolences; an encourager and patron of Art, a lover of Literature, a Crœsus with a mind capable of at once grasping the most intricate details of finance and reveling in the beauties and understanding of the Fine Arts.

In all of the mass of reiterated, embellished accounts turned out about Morgan's career, there is no particle of truth save one undisputed fact. Undeniably he is one of the towering, aggressive money monarchs of the United States. What does he not own or control? Scan the conglomeration of properties owned exclusively by him, or jointly with others. What a

bewildering list! The mind is taxed at inventorying them, and forbears enumeration. Banking institutions and railroads, industrial plants and mines, land, public utility systems and shares, steamships, publishing houses and newspapers—all his, or partially so. Morgan is supereminently one of the “Christian men to whom God in His infinite wisdom has confided the property interests of the country.”

Let us scrutinize the career of this man whom God is alleged to have chosen as a trustee for the stewardship of the nation’s property, and for the guidance of its Government.

Foulest of all foul blasphemies would it be to interrogate the divine choice of lieutenants or derogate from them. Yet inasmuch as those who make such emphatic claims of heavenly appointment have not as yet been able to produce their credentials (although earnestly beseeched to do so), we fallible mortals shall have to fall back upon mere human standards of judgment. What (by way of analogy), if the people of the United States should forthwith conclude to confiscate all private property, and declare collective ownership upon the ground that the good Lord God had authorized it so—what would the present legal owners say? Would they not resist, and demand written documents, attesting the fact of divine sanction, signed and sealed by celestial notaries? And even if, let us fancy, such documents were forthcoming, would not our magnates have the Supreme Court of the United States denounce them as stupid forgeries, issue a mandate for the arrest of their contumacious Author, and again sternly declare, for the twentieth thousand time, that no power was superior to that of the Supreme Court of the United States?

All other criteria failing, we shall have to consider Morgan by the light of terrestrial evidence — perhaps a poor method, but the only one within our horizon.

## NOT QUITE A "SELF-MADE MAN."

Morgan is not one of those magnates coming wholly under the classification of being a "self-made man."

This phrase, used with so unctuous an effect in contemporaneous descriptions of rich men's careers, has never been applied to Morgan. For once, there is a break-off in the almost unvarying run of similitudes. Of the early careers of nearly all other multimillionaires the same story has been mechanically written by glorifying writers; how these men started out as poor boys, opened a little store somewhere, saved money and gradually worked up to wealth. In the nineteenth century the term "self-made man" was invested with an inordinate importance as signifying great personal energy and ability; so much credit was supposed to attach to it that it was always mentioned with praise and received with pride. The object of its application was pointed out as a man who, possessing no original advantages, overcame all obstacles by sheer force of skill and determination, and achieved wealth.

This, however, could not be said of J. Pierpont Morgan. His father, Junius S. Morgan, was a millionaire. Ascending by successive steps from the positions of farmer boy, dry goods clerk, bank clerk and commercial man, Junius S. Morgan became a partner of George Peabody in the banking business. When the Civil War came on, George Peabody and Company were appointed the financial representatives in England of the United States Government. Synchronously with this appoint-

ment their wealth suddenly began to pile up; where hitherto they had amassed riches by stages not remarkably rapid, they now added many millions within a very few years.

#### HIS FATHER'S CAREER.

How did they contrive to do it? Biographical narratives aver that it was done by legitimate banking methods, although what those methods were is not explained. But if we are to believe the comments and criticisms appearing in the American newspapers of the time, their methods were not only very far from being legitimate, but were within the pale of the most active treason. The Constitution of the United States defines treason as consisting in citizens levying war upon the nation, or in giving aid and comfort to the enemy. According to writers of the day, the methods of George Peabody and Company were of such a character as to be not only treasonable, but double treason, in that, while in the very act of giving insidious aid to the enemy, George Peabody and Company were the financial plenipotentiaries of the United States Government, and were being well paid to advance its interests.

An article for example, published in the *Springfield Republican*<sup>2</sup> in October, 1866, asserted: "For all who know anything of the subject know very well that he [Peabody] and his partners in London gave us no faith and no help in our struggle for national existence. They participated to the full in the common English distrust of our cause and our success, and talked and acted for the South rather than for the nation."

<sup>2</sup> This newspaper has always enjoyed the reputation of being of an extremely careful and accurate character; it has remained one of the very best newspapers in the United States.

Evidently, it was the sight of the large benefactions which Peabody was then giving that prompted the remarks upon the origin of his fortune.

#### MILLIONS FROM ALLEGED TREASON.

The writer of this article went on to say that George Peabody and Company swelled the feeling of doubt abroad, and speculated upon it. "No individuals," he continued, "contributed so much to flooding our money markets with the evidences of our debt in Europe, and breaking down their prices and weakening financial confidence in our nationality than George Peabody and Company, and none made more money by the operation. All the money, and more, we presume, that Mr. Peabody is giving away so lavishly among our institutions of learning was gained by the speculations of his house in our misfortunes."<sup>8</sup> A writer in the *New York Evening Post*, issue of October 26, 1866, also made the same statements, accusing Peabody and Junius S. Morgan of using their positions as United States financial representatives to undermine the very cause that they were paid to represent, and profiting heavily from their treachery.

These are a few of the newspaper comments then current. Whether they were all true, or partially true, or not true at all, we do not know; no confirmation of them can be found in official records. The statements

<sup>8</sup> This article was also published in the *New York "Times,"* issue of October 31, 1866.

"We have in this country," wrote Cloud in his "Monopolies and the People," published in 1873, "a moneyed aristocracy, composed mainly of men who speculated in their country's misfortunes during the late Civil War, and who under pretense of aiding the Government, made their twenty, fifty and one hundred per cent. and amassed large fortunes by taking advantage of the tide of war as it submerged a nation's hopes."—p. 227.

are given here for what they may be worth.<sup>4</sup> But it should be remembered that not the one-thousandth part of what was going on in the world of capitalism ever found its way into official documents. Reasoning from conditions prevailing at the time, it is more than likely that the accusations were by no means ill-founded.

#### YOUNG MORGAN'S ENVIRONMENT.

In the chapters on the Vanderbilt and the Gould fortunes an abundance of facts from the Government records have been presented, depicting how every part of the capitalist class was engaged in the most gigantic frauds and swindles upon the Government during the Civil War. To add to this collocation would be superfluous were it not necessary to bring out clearly in each case the prevailing methods, influences and conditions, and to show that particular acts were not those of individuals so much as of a class. Peabody and the elder Morgan were but following the standards of their class, the capitalist order of society, and the lessons which

<sup>4</sup> Regarding another of Peabody's transactions, however, certain definite facts are embodied in official documents. From these documents it would conclusively appear that Peabody had been long carrying on methods somewhat similar to those that he was accused of profiting by during the Civil War.

In 1839 the Chesapeake and Ohio Canal Company found occasion to complain bitterly of Peabody's methods as its financial representative in London. The stock of this company was secured by bonds issued by the State of Maryland as pledge for its debt. Peabody sold these bonds in Europe at ruinous discounts, and with large sums of money belonging to the company in his possession, refused to honor its bills. By this process he made large profits. His excuse was the critical condition of the European money markets. The directors of the company formally approved his action, probably to let him out gracefully, but were glad to accept his resignation.—U. S. Senate Documents, First Session, Twenty-sixth Congress, 1839-40, Vol. viii, Doc. No. 610. This document contains the full correspondence between the company and Peabody.

young J. Pierpont Morgan imbibed were those taught in exemplary fashion by the whole of the class. To describe his transactions with a precipitate abruptness of treatment, while omitting a perspective upon his times, would afford no understanding of the molding forces in operation, and would be prejudicial and without aim.

In every department of business the most persistent and gigantic frauds had long been committed by capitalists, and grew to enormous proportions during the Civil War. Not only were those rich bribers and defrauders ~~secure from punishment~~, but they had little difficulty in keeping all, or nearly all, of the wealth thus fraudulently acquired, and investing much of it in other channels. It is advisable to advert here again to the practices of that large body of importers who had already acquired consequential fortunes, and who, when Morgan was just starting out, occupied a superior position as respectable, conspicuous and patriotic "leading citizens."

In the one prolific field of defrauding the Government of customs dues, large private fortunes had already been amassed by the year 1860. In preceding volumes we have given instance after instance, particularly the enormous frauds of Phelps, Dodge and Company. But those instances were only a few of an immense total.

A Congressional report in 1850 (Ex. Documents, Second Session, Thirty-first Congress, 1850-51, Vol. V, Ex. Doc. No. 44) specified 2,062 different cases of fraudulent undervaluations on the part of nearly as many importers at Boston, Philadelphia, New York and New Orleans. Replying to a resolution of the United States Senate calling for a statement of measures adopted to prevent frauds upon the revenue, U. S. Secretary of the Treasury Corwin reported (U. S. Senate Documents, First Session, Thirty-first Congress, 1849-50, Vol. XIV,

Doc. No. 79) that the honest trader had no opportunity in business. "All the frauds," he wrote, "which can be perpetrated by double invoices and false valuations continue without abatement. Honest merchants and fair traders have been driven from the business of importing foreign merchandise, being unable to compete with the dishonest practices that prevail and which our present system favors. . . . The means at the disposal of this department are entirely inadequate to such an examination of imports as will effectually suppress the systematic frauds known to be extensively perpetrated."

Thirteen years later Edwin Jordan, Solicitor for the United States Treasury Department, reported the same state of affairs. Describing the custom house frauds at New York, he reported, on January 25, 1863, to Chase, Secretary of the Treasury (House Miscellaneous Documents, Third Session, Thirty-seventh Congress, 1862-63, Vol. I, Doc. No. 18), "that frauds in the importation of foreign merchandise are extensively, constantly and systematically carried on. They are effected in various ways." One method, Jordan wrote, was that of considerable direct smuggling of jewelry, laces, rich silks and other costly goods carried on the person, often with the connivance of the revenue officers. Jordan continued:

But probably, the usual mode in which frauds are committed is by the use of invoices, in which the goods to which they relate are falsely described, or undervalued. Sometimes the importer relies upon the inability of the revenue officers to detect such false description or undervaluation, and sometimes upon his own power by corruption, to induce them to pass the goods, with a full knowledge of the fraud. Experience has proven that in neither case is his expectation disappointed by the result. . . .

As to the accessibility of many of those employed in the

custom house to corrupt influences, the evidence is, I regret to say, conclusive and startling.

The facts developed in connection with the particular frauds before referred to show that money, in large sums, was received by officials as the undisguised reward of fraudulent acts or connivance. But, in addition to this, the statements herewith submitted seem to justify the belief that nearly the entire body of subordinate officers in and about the custom house are, in one way or another, in the habitual receipt of emoluments from importers or their agents.

Jordan reported (page 6 of the report) that one lawyer declared that he had paid to a single custom-house record clerk the sum of \$1800 in a period of fifteen months. "Entries from the books of an importing house, doing but a moderate business, are discovered, showing that about a thousand dollars had been paid by it to an examiner within a period of a year. It is shown that a bond clerk, with a salary of \$1000 per annum, enters upon a term of eight years with nothing, and leaves it with a fortune of thirty thousand dollars." Jordan reported that he thought the amount and extent of bribes were much larger than the custom-house officials were willing to admit.

What was set forth in official reports as "the notorious Williams case," was characteristic of the methods by which fortunes had been thus acquired. In these official reports, the firm of J. D. and M. Williams, wine importers of Boston, was described as one of the "oldest established" in that city; its members had grown very rich, and occupied a preëminent station of superior elegance and prestige. They professed to be deeply shocked and wronged when, in 1865, Collector Goodrich of the Port of Boston specifically charged them with long-continued defrauding of the Government in the importation

of sherry and champagne. The Government examiners and officials presented calculations showing that, by undervaluations, the firm had cheated the Government out of at least \$150,000 in duties; that the interest would make the amount nearly \$200,000; and that the value of the wines, since 1846, liable to forfeiture, would reach about \$2,000,000. (See Reports of Committees, Second Session, Thirty-ninth Congress, 1866-67, Report No. 15.)

Collector Goodrich demanded of the firm that it pay \$500,000 restitution to the Government — a sum equivalent to double the duties and interest. Confronted with the most positive evidences of its guilt, the firm dropped its arrogant and injured attitude. It offered the Government \$350,000 in full satisfaction of all duties, fines and forfeitures. This offer was declined. Suddenly, a singular change came over the custom-house officials; they consented to revise their calculations and recommend the settlement of the Government's claim for the payment of \$100,000, and that sum was accepted.

The result was a loud public scandal; impatient curiosity was popularly expressed as to why, after declining an offer of \$350,000, the Government had accepted \$100,000. The House Committee on Public Expenditures investigated. This committee, on February 11, 1867, handed in two reports. Both reports agreed upon this fact: That during the firm's negotiations with the Government, Samuel A. Way, a prominent Boston banker, obtained \$31,200 from the Williams firm, whom he represented in the case. What did he do with that sum? The three majority members of the committee reported that there were strong indications that he had bribed custom-house officials to agree to the settlement so favorable to the Williams firm. But as for the complicity

of the Williamses, the majority could not entertain the suspicion, it reported that a firm of such "long-unblemished reputation and wealth" (sic) could be a party to fraud and bribery.

The minority report of two members ridiculed that of the majority. "According to Messrs. Williams' own testimony," it reported,

Way, their agent, represented to them that he must have money with which to bribe Government officials into a more favorable compromise. . . . And how did these honorable and persecuted wine importers receive the proposition? Were they shocked at it? . . . Nothing of the kind. . . . They did precisely what might be expected of men, who, for a long series of years, had systematically defrauded the Government by putting false invoices through the custom house by as long a continued a series of perjuries. They handed to their agent, Mr. Way, at his request during the negotiation, the nice little sum of \$31,200 . . . to have it used in the bribery and corruption of United States officers (page 28 of the report).

The minority, however, thought that Way had "pocketed the money himself." In reading these reports one is inclined to conclude that the majority sought to whitewash the firm, and the minority to clear the custom-house officials. The firm had, it was clear, testified to its guilt, and considerable testimony showed that the custom-house officials were generally corrupt. The minority report ended by severely denouncing the firm, and spoke of "the immense interest which the foreign importers have in breaking down every honest official who stands between them and the Treasury." The practice on the part of capitalists in causing the removal of honest officials who sought to thwart their frauds had been long-prevailing, as we have seen in the cases of John Jacob Astor and others.

No criminal action was brought against the Williams

firm ; the scandal was soon forgotten ; and they, like many another importing house profiting by such methods, retained their rank and wealth. Of the \$100,000,000 or thereabouts invested in railroads by Massachusetts capitalists at that time, a considerable part of the investment was doubtless made by men who had obtained their wealth by defrauding the Government in customs dues.

If recurring charges are any indication of corruption, the officials of the United States courts were constantly corruptly influenced or bribed to bring no criminal actions against men of wealth, or to cause cases finally to be dismissed, if actions were brought. Even slave traders, the abominations and horrors of whose traffic shocked the whole civilized world, seem to have bought immunity, and this, too, after the Civil War had begun. According to the Duke de Rochefoucault Liancourt, who traveled in the United States in 1795, "nearly twenty vessels from the harbors of the United States are employed in the importation of negroes to Georgia and the West India Isles." In his "Travels" (Vol. II, p. 292, English translation) the Duke further told how the merchants of Rhode Island were the conductors of what he described as the "accursed traffic." United States law prohibited the importation of slaves after the year 1808, and outlawed the traffic as piracy. But the slave traffic continued, and large sums of Northern capital, particularly of New York, Spanish and Cuban capital, were invested in it. Slaves snatched from Africa were sold in the Spanish colonies in America. "Spain," wrote Secretary of State Seward to Minister to Spain Koerner, in 1864, "is believed to be the only Christian country in whose dominions African negroes are now introduced as slaves." Spain, added Seward, had a treaty with Great Britain on the subject, but disregarded it.

From May 1, 1852, to May 1, 1862, twenty-six American schooners and brigs were libelled by the Government at the Port of New York, charged with being engaged in the slave traffic. Some were seized at New York, and others on the coast of Africa. Many of these vessels were condemned. (Senate Doc. No. 53, Vol. V, U. S. Senate Documents, Second Session, 1861-62.) On November 28, 1863, Seward wrote officially to Lord Lyons that a steamship had recently landed more than one thousand African negroes near Cardenas or Sagua, Cuba; that "very prominent and wealthy persons are said to be implicated in the business"; and that it was believed the steamer went to Nassau after landing the negroes. Under Spanish law, it was provided that all African negroes captured by the Spanish Government should be declared *emancipadoes*, and distributed among the planters and others for a monthly compensation, part of which accrued to the Government. But Thomas Savage, U. S. Vice Consul-General at Havana, in describing the system, wrote to Seward: ". . . A little gold judiciously distributed among the *cura*, captains of the district, etc., will establish the fact [of the negro's alleged decease] and the *emancipado*, so reported as dead, remains a slave for life." (U. S. Senate Ex. Docs., First Session, Thirty-eighth Congress, 1863-64, Part II, Doc. No. 48.)

On June 19, 1861, the bark *Augusta* was seized by United States Marshal Robert Murray at Greenpoint, Long Island, on the charge of being fitted out as a slaver to go to Africa, and was condemned. A party of capitalists, headed by Appleton Oakes Smith and his brother, scions of a well-known family, were financing the expedition. To Murray's amazement, the U. S. District Attorney's office at New York then allowed the ves-

sel to be bonded for an insignificant sum, and licensed her to clear the port. Hastening after her, Murray again seized the *Augusta* at Fire Island. He then formally and circumstantially charged collusion between the slave trade interests and certain officers of the Federal judiciary at New York. The Secretary of the Interior subsequently decided that collusion had not been proved. (U. S. Senate Docs., Second Session, 1861-62, Vol. V, Doc. No. 40.) Horace Greeley's editorials of the day express the greatest indignation at this attempted cheating of justice; the case was only one of numerous such cases; many a time slave traders had succeeded in having actions against them dropped or dismissed.

We have now seen how the most successful capitalists, the founders of great fortunes, piled up their wealth by unrestrained careers of fraud and theft. We have noted how Commodore Vanderbilt pocketed millions by blackmailing competitors, and by leasing or selling worthless vessels to the Government during the Civil War for exorbitant sums. The facts have been set forth how a host of other capitalists swindled the United States Treasury out of hundreds of millions of dollars, and hazarded the lives of the very armies fighting for their cause by bribing Government officials to accept army and navy supplies of shoddy clothing, worthless tents and blankets, good-for-nothing shoes, adulterated, deleterious food, and guns which were frequently more dangerous to the men using them than to the enemy.

Even if the supplies and equipment contracted for were of passable quality, the Government was mulcted out of extortionate sums.

In previous chapters we have had repeated occasions to refer to the huge swindles which Marshall O. Roberts, one of the foremost and highly prized capitalists of

those years, successfully worked upon the Government. Some of the vessels that he sold for transport service were so bad that one of them foundered a day or two after leaving port. The crew of this ship—the *Union*—was alone saved, and barely so, at that; the ship and all her army stores were a total loss. Another ship sold by Roberts was so badly damaged on her first voyage as to be hardly able to reach port, although not without much loss of freight. But to give a succinct idea of the greater sums squeezed out of the Government for vessels for which some fair degree of efficiency could be claimed, the case of the steamship *Illinois* need only be cited. For a few years' lease of this vessel Roberts succeeded in getting a total rental of \$370,700, yet it was appraised by a naval board as worth, all told, cost of construction and equipment included, \$257,187. After the Civil War it was returned to him in a much better condition than when he had leased it. The transaction was one of many such scandals that Congress deemed it wise to investigate.<sup>5</sup>

Need it be said, however, that Vanderbilt and Roberts were far from being exceptions? One of the greatest frauds of all in the extortion of large sums from the Government was Thomas Clyde, the founder of the Clyde Steamship Line and commonly described in biographical accounts as a capitalist of the greatest probity. According to the court records, Clyde, by fraudulent representations, succeeded in obtaining exorbitant rates for the leasing of vessels for transport service. The Government discovered his frauds in time, and despite his urgent remonstrances, declined to pay the full amount that he claimed.

<sup>5</sup> See Executive Documents, Second Session, Thirty-ninth Congress, 1866-67, Vol. x, Document No. 65.

In the suit that followed in the case of the steamer *Tallaca*, the Government claimed that Clyde was guilty of a fraud; that in dealing with Quartermaster Ferguson he had fraudulently suppressed certain facts which, had they been known, would have prevented Ferguson from contracting to pay \$115 a day for the vessel. In this case the Court of Claims decided in favor of Clyde.<sup>6</sup> But in the case of the steamer *Rebecca Clyde*, also before the Court of Claims in December, 1869, the court severely denounced Clyde's claim as fraudulent, referred to the "unconscionable and exorbitant rates of transportation," and to the "injustice and extortion" of Clyde's claim, and dismissed his petition.<sup>7</sup> In the appeals in both cases the Supreme Court of the United States reversed both decisions.

#### CONTEMPORANEOUS PHILANTHROPISTS.

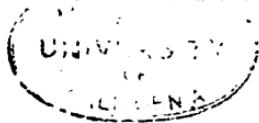
Such of the successful capitalists as were not defrauding in many directions were concentrating schemes of fraud in some one special direction.

The Stevens family, of Hoboken, N. J., was one of the notable examples. They were millionaires before J. Pierpont Morgan had outgrown boyhood; they ranked high among the leading capitalists of the country; and by donations of a part of their fortunes they became celebrated as philanthropists. They were the principal owners of the Camden and Amboy railroad, then called in New Jersey the "Railroad Monopoly."

In the fifteen years before 1860 they were the most notorious corrupters of the New Jersey Legislature; time after time they bribed bills through, corrupted the elections and the courts, ignored or evaded the laws,

<sup>6</sup> Court of Claims, v: 134-140.

<sup>7</sup> Ibid., 140-155.



and bled the public by an illegal system of transportation charges. That they and Blair and other railroad magnates were continually debauching the New Jersey Legislature was common understanding, but it was not to be expected that the Legislature would seriously investigate itself. In 1855 a specific bribery scandal inadvertently happened to become public; the Legislature hurriedly appointed a catechizing committee which made a pretense of investigation, and then turned in a report which harmed no one.<sup>8</sup>

The Stevenses not only had their direct, but also their indirect, sources of tribute. One of them, Edward A. Stevens, a philanthropist par excellence, was carrying on, it seems, a species of blackmailing akin to that Vanderbilt employed. As the owner of the Hoboken Land and Improvement Company, Stevens had secured a franchise for a branch railroad line from Hoboken to Newark. For many years, up to 1860, he compelled the New Jersey Transportation Company, a competitor in that one section of the State, to pay him an annual subsidy of \$18,000, in order to buy him off from building the branch line.

The New Jersey Transportation Company decided, in 1860, that it would no longer pay this blackmail money. In retaliation, Stevens bribed the New Jersey Legislature to give him a franchise to connect his line with the Morris and Essex Railroad in which he held a large proprietorship. A turbulent scene ensued when the bill was passed on March 1, 1860. Assemblyman Slaight, of Hudson County, charged that an offer of bribery had been made to him to vote for Stevens' bill.

<sup>8</sup> Report of the Special Committee in Reference to Alleged Attempts at Bribery.—New Jersey Senate Journal, 1855: 707 to 715, 841 to 862, etc. The bill was one authorizing the building of bridges over the Passaic River and Newark Bay. Digitized by Google

Whereupon Peckham, of the same county, rose and announced he had been offered by Stevens' opponents as high as \$3,000 to oppose the bill.

These are but a very few of the many examples of successful capitalists whom the young men were taught to look up to and, if possible, emulate. And what were the business methods of the most conspicuous factory owners? To get an even more correct focus upon the youthful career of J. Pierpont Morgan, it is desirable to consider some of the ways in which the large industrial concerns were rushing into great wealth.

Asa Whitney was one of the important all-round capitalists of the United States; he was a railroad projector, and his firm, Asa Whitney and Sons, owned the largest carwheel factory in the land. He was a very enthusiastic patriot; so were they all, those commercial men, brave in patriotic talk. The quality of their patriotism was particularly evidenced after John Brown's raid at Harper's Ferry.

War between North and South was generally regarded as unavoidable. The South was busily preparing. What were the Northern factory owners doing? Working their plants day and night to supply the South with equipment. In the first months of 1860 the Whitney works were run to their fullest capacity to provide wheels largely for Southern railroads. In the same months the Baldwin Locomotive Works of Philadelphia turned out fifty-eight locomotives, all but four of which were for Southern railroads. Bement and Dougherty and the firm of William Setters and Company, machine tool builders in Philadelphia, were filling heavy orders for Southern railway and machine shops.

These capitalists, and all who were doing as they were, knew that every indication threatened that this equip-

ment would soon be used in war against the very section to which they belonged, and for the interests and principles of which they professed to be such staunch adherents. In fact, some of them made declamatory patriotic speeches at the very time when they were profiting from equipping what they knew would shortly develop into an openly hostile people, intent upon sustaining their purposes by armed force.

#### THE DEFRAUDING OF INVENTORS.

The Northern gun manufacturers did the same; not one of them scrupled to fill Southern orders. They also refused, for the most part, to adopt any improvements or utilize any of the numerous new inventions. In pleading for the establishment of more Government armories, and foundries, Representative Wallace of Pennsylvania, in a speech in Congress, on February 28, 1863, said:

When we look at the manner in which our army and Government have been defrauded by peculators, we must shrink from the idea of trusting to private contractors to furnish the necessary means for our national defense. Dependence upon private contractors for arms and munitions of war is too precarious and uncertain in all respects, as well as too costly, upon which to rest such an important and vital interest of the nation. The improvements made of late years in the power and destructiveness of all arms have rendered comparatively useless weapons that were deemed the very best, perhaps not more than a quarter of a century ago. . . . The interest of the private contractor is to discourage all change in the character of arms which his machinery is prepared to make, as machinery is costly, and every material change necessitates a corresponding change in his machinery. . . .<sup>9</sup>

The explanation of the gun manufacturers was that

<sup>9</sup> The Congressional Globe, Thirty-seventh Congress, Second Session, 1862-63, Part II, Appendix: 136.

patriotism was not involved; that it was simply "a case of business."

Doubtless it was this acute business instinct which led them to steal outright the patents for breech-loading guns. According to the conclusions of a Congressional committee on patents, the inventor of mechanical devices for breech-loading small arms and machine guns was George W. Morse, who took out patents in 1856. The gun manufacturers appropriated his inventions. As in the cases of Goodyear and many another inventor, Morse was cheated out. Thrown into the deepest poverty, he applied, in 1878, to the Government for payment on the score of his invention. In favoring his petition, the Committee on Patents reported, "He is ignored and poor in his declining years, and those who have adopted his inventions without remunerating him are rolling in wealth."<sup>10</sup>

In the case of another inventor, C. D. Schubarth, a foreigner residing at Providence, R. I., a Government Commission reported these facts; that he had invented a new type of gun; that in order to raise the funds he had to take in several capitalists as partners; that he was informed that to get a contract from the War Department, it was necessary to bribe one of the United States Senators from Rhode Island; that he was then given a letter of introduction to United States Senator J. F. Simmons by the Providence firm of A. D. and J. Y. Smith "a business house of great wealth and respectability"; and that he arranged to give Simmons five per cent. of the amount of the contract. Schubarth thus obtained a contract for 50,000 Springfield rifles; according to the evidence before the Government

<sup>10</sup> House Reports, First Session, Forty-fifth Congress, 1878-79, Vol. i, Report No. 1:3.

Commission, Simmons' Graft amounted to \$50,000.<sup>10a</sup>

Everywhere in the struggle for commercial success obtruded fraud, theft and murder; one or more or a combination of these methods constituted the means by which wealth was largely piled up. Overwork and criminal accidents joined with disease and want and worry and unsanitary housing killed off myriads of workers by sudden or lingering death. Yet not alone in the factories and mines, on the sea and in the tenements did this scourge of death go on as an accompaniment of the rapid growth of private wealth. Out on the primitive plains and in the mountain fastnesses whole tribes of Indians were ruthlessly despoiled, driven off, and then, on some pretext or other, slaughtered so that their lands and the resources on them could be gratuitously seized.<sup>11</sup>

<sup>10a</sup> Report of Commissioners Joseph Holt and Robert Dale Owen to Secretary of War Stanton, June 21, 1862, U. S. Senate Documents, Second Session, Thirty-seventh Congress, 1861-62, Vol. 1, Doc. No. 64.

<sup>11</sup> These are a few extracts from the annual report of the United States Commissioner of Indian Affairs, 1859:

"We have substantially taken possession of the country [the Western Territories] and deprived them [the Indians] of their accustomed means of support.

"Numbers of them are compelled to sustain life by using for food reptiles, insects, grass, seeds and roots.

"They have at times been compelled to either steal or starve.

"Many of the numerous depredations have doubtless been committed by them in consequence of their destitute and desperate condition."

Report after report of the United States Commissioner of Indian Affairs showed that many Indian tribes were in a state of absolute destitution, and Congress was called upon to pass appropriations for their support. The Pawnees and other tribes that Astor had debauched and swindled for so long a period, were in a starving condition. Document No. 27, United States Senate Documents, Second Session, 1875, reveals that British and American traders had long since introduced among the Chilcats, Sitkas and other Indian tribes in Alaska, the methods so successfully exploited by Astor of getting the Indians drunk and swindling them of furs.

The outbreak of the Civil War gave the mercantile class unsurpassed opportunities for profiting from what amounted to organized murder. However severe this statement seems, it is in reality quite mild in describing the prevailing practices of capitalists.

← PROFITING FROM ORGANIZED MURDER. →

It would be quite puerile and a poor extenuation to say that they were not fully conscious of the disastrous consequences to the nation flowing from their acts. They knew the baleful results to the soldiery of imposing fraudulent army and navy supplies upon the Government. Yet, spurred by the certainty of extortionate profits, they went eagerly ahead, and when their frauds were discovered, sought to block every attempt at investigation. In the one item of shoes alone, the shoe manufacturers sold to the Government from 1861 to 1862 five million pairs of shoes for the army, as to which transaction a Government commission reported that at least \$3,000,000 had been defrauded; that supplies of shoes which were so bad that they could not be sold privately had been palmed off upon the Government.<sup>12</sup>

But the one equipment which the army most urgently needed was rifles. We have already, in a previous chapter, related how Marcellus Hartley and other prominent capitalists swindled the Government, and imperiled the Union Army, by importing the refuse of European arms and unloading them upon the United States Government. Also, we have adverted to the fact that it was greatly because of the great profits made in these transactions that Hartley was able to build enormous factories at

<sup>12</sup> Reports of Committees, Thirty-seventh Congress, Second Session, 1861-62, Vol. 2: lxii-lxiv.

Bridgeport, Conn.—factories that his descendants now own.

J. Pierpont Morgan was profiting from the same methods at the same time. He was, in 1861, a robust young man, just turned twenty-four years old. "He inherited from his parents," says one of his biographers, "their purity of character and exceptional abilities."<sup>18</sup> Those attributed lofty virtues were not in evidence. At a critical juncture when the Union Government was most in need of soldiers, Morgan chose not only to stay at home, but to profit from the sale of worthless rifles for the arming of the men who responded to the call to arms.

Abraham Lincoln was sending out his proclamations calling for volunteers. The contest was a momentous struggle not merely between sections, but between two kinds of conflicting capitalist institutions. The so-called common people—the factory and shop workers, the slum dwellers, the professionals and the farmers—heroically poured in for enlistment. Hundreds of thousands went forth to the camps and battlefields, never to return.

Although well qualified physically and mentally for military service, Morgan avoided any kind of duty interfering with money making and comfort. He differed in nowise from almost all the men of position and property. They restricted their exuberant patriotism to talk and the waving of bunting, but took great care to keep away from the zone of personal danger. The rich, for whose interests the Northern armies were at basis fighting, not only as a class evaded enlistment, but proceeded to demoralize, spread disability and sow death among their own armies. While doing this, and at the same time swindling the Government, States and cities out of

<sup>18</sup> "America's Successful Men," i: 452.

vast sums in army contracts, they caused the Draft Act to be so amended that it gave men of property the easy opportunity of escaping conscription by permitting them to hire substitutes.

#### MORGAN'S FIRST STROKE OF BUSINESS.

J. Pierpont Morgan's first ascertainable business transaction was in one of these army contracts; and while it was not on so large a scale as those of older capitalists, it was (judged by prevailing capitalist standards) a very able stroke for a young man of twenty-four. Its success gave promise of much greater things to come, in which respect Morgan's admirers were not disappointed.

In 1857 the army inspecting officers condemned a large number of Hall's carbines as thoroughly unserviceable, and as of obsolete and dangerous pattern. The Government thereupon auctioned off quantities of them from time to time at prices ranging from between \$1 and \$2 each. Five thousand of them, however, still remained in the army arsenal in New York City and were there when the Civil War broke out.

On May 28, 1861, one Arthur M. Eastman, of Manchester, New Hampshire, made an offer to the Government to buy these rifles at \$3 each. Knowing the great frauds going on in the furnishing of army supplies, the Government officials might well have been suspicious of this offer, but apparently did not question its good faith. The rifles were sold to Eastman at \$3.50 each. But either Eastman lacked the money for payment, or had been thrust forward to act as a dummy for a principal in the background. One Simon Stevens<sup>14</sup> then stepped

<sup>14</sup> The House Investigating Committee on Government Con-

on the scene, agreeing to back Eastman to the extent of \$20,000, which sum was to be applied for payment for the rifles; as collateral security Stevens took a lien upon the rifles. But from whom did Stevens get the funds? The official and legal records show that it was from J. Pierpont Morgan.

#### A GREAT SCANDAL OF THE TIME.

The next step in this transaction was in Stevens' telegraphing, on August 5, 1861, a notification to General Fremont, commanding at St. Louis, that he had five thousand new carbines, in perfect condition, and inquiring whether Fremont would take them. From Fremont's headquarters came word to ship them to the army headquarters at St. Louis at once. During all of this time the carbines had remained at the arsenal in New York City. Upon receiving Fremont's order, Morgan paid the Government the sum of \$17,486—at the rate of \$3.50 a carbine. The rifles were shipped direct from the arsenal to St. Louis. And what was the sum charged upon the Government for them? The bill made out to

tracts in 1862 reported to Congress that Simon Stevens was one of a clique involved in custom-house frauds. Before 1859, the New York Collector of the Port had employed the laborers and cartmen in the appraiser's store to haul goods to the Government bonded warehouses. In August, 1859, Collector Schell (a corrupt Tammany politician) made a contract by which the hauling was turned over to some of his political associates. They were paid \$123,000 a year. "Upon this contract," reported Chairman Van Wyck, "the parties made from fifty to seventy-five thousand dollars yearly." The committee showed how the contract had been corruptly obtained, and stated that Stevens had a one-eighth share of the profits. Stevens also caused any of the custom-house clerks who said anything against the contract to be removed from office.—The Congressional Globe, Third Session, Thirty-seventh Congress, 1862-63, Part II, Appendix: 118.

Fremont called for the payment of \$22 apiece for the consignment.<sup>15</sup>

This was one of the many army contracts popularly and officially regarded as scandalous in the highest degree; one of the select Congressional Committees of 1862 lost no time in the investigating of it. After making a full inquiry this committee reported:

Thus the proposal actually was to sell to the Government at \$22 each 5,000 of its own arms, the intention being, if the offer was accepted, to obtain these arms from the Government at \$3.50 each. . . . It is very evident that the very funds with which this purchase was effected were borrowed on the faith of the previous agreement to sell. The Government not only sold one day for \$17,486 arms which it had agreed the day before to

<sup>15</sup> Reports of Committees, Second Session, Thirty-seventh Congress, 1861-62, Vol. ii: lxiv-lxxli.

The frauds at Fremont's headquarters, at St. Louis, were particularly enormous. Major McKinstry, quartermaster of the U. S. army at that place, was tried by a courtmartial on sixty-one specifications of corrupt practices, and was found guilty on twenty-six. The testimony showed the grossest frauds, by collusion, in all kinds of army supplies. The Morgan rifle transaction, however, was not brought out in the specifications. McKinstry was discharged from the army.—House Reports, Committees and Court of Claims, Third Session, Thirty-seventh Congress, 1862-63, Report No. 49: 1-24.

That the bribery of certain Union officers was a fact was revealed by this communication sent by Major-General Frederick Steele, on July 26, 1864, from Little Rock, Ark., to Major-General E. R. S. Canby, commanding the Military Division of West Mississippi:

"General: Your communication in regard to bribery among the officers of my command is just received. If bribes had been taken it must have been by agents. I am satisfied that the officers know nothing about it. General Marcy, Inspector-General, is at Fort Smith investigating the matter. Carr is chief-quartermaster of my corps and a lieutenant-colonel. Brig.-Gen. J. W. Davidson has slandered Carr on all occasions. . . . He could have had affidavits in regard to the corruption of his own disbursing officers if he had wished them. I have seen such affidavits."—House Miscellaneous Documents, Second Session, Fifty-second Congress, 1892-93 (Rebellion Record Series I, Vol. xli), p. 401.

repurchase for \$109,912 — making a loss to the United States of \$92,426 — but virtually furnished the money to pay itself the \$1,486 which it received.

The committee further reported that the rifles were ~~so bad~~ that it was found that they would shoot off the thumbs of the very soldiers using them. But not only did the Government condemn the transaction as a bare-faced swindle; Marcellus Hartley, himself a dealer in arms and a self-confessed swindler, had declared before the committee, "I think the worst thing this Government has been swindled upon has been these confounded Hall's carbines."<sup>16</sup> The Government refused to pay Morgan the \$22 demanded for each of the five thousand carbines, whereupon Morgan pressed his claim. Thus it was that the ~~case of J. Pierpont Morgan vs. The United States Government~~ came into the public records. It figured as case No. 97.<sup>17</sup> To adjudicate this claim, as well as many other similar claims, the Secretary of War appointed a Commission composed of J. Holt and Robert Dale Owen, son of the famous Robert Owen.

Reporting on July 1, 1862, this commission stated that one hundred and four cases, involving demands upon the National Treasury to the extent of \$50,000,000 had been referred to it, and that it had cut out \$17,000,000 of claims as extravagant and fraudulent.<sup>18</sup> In passing upon Morgan's claim it declared that General Fremont had no authority to contract for the rifles, but that it, the committee, recognized a legal obligation on the part of the Government arising from the fact that the arms passed into the service of the army. As the best way out of a bad bargain it decided to pay Morgan at the

<sup>16</sup> Reports of Committees, Second Session, Thirty-seventh Congress, 1861-62, Vol. ii: 200-204.

<sup>17</sup> Ibid., 64-72.

<sup>18</sup> Ibid., lxxvii.

rate of \$13.31 a carbine, and it pointed out that even at this price Morgan and Stevens stood to make \$49,000 above the price at which the rifles had been sold to them by the United States.<sup>19</sup> Under this ruling a total of \$55,550 was paid to Morgan by the Government, which sum was accepted on account only.

This settlement, however, was not satisfactory to the claimants; the full pound of blood was demanded. Suit was brought in the Court of Claims at Washington for \$58,000 more. This time the case was entitled Simon Stevens vs. The United States Government.<sup>20</sup> In the settlement of the case before the court the fact was emphasized that, according to the Government, the carbines had been inspected and pronounced unserviceable by the Government ordnance officer. In delivering his decision Judge Peck said: "By an arrangement between Stevens and one J. Pierpont Morgan the voucher for the first two thousand and five hundred carbines delivered was to be made out in the name of Morgan, which was done; the said voucher was signed by F. D. Cadwallader, Captain of Ordnance, United States Army, and was for the sum of \$55,550. By further arrangement this voucher went into the hands of Messrs. Ketchum, Son and Company." This voucher was paid on or about September 10, 1861. The other twenty-five hundred rifles, the court said, had also been received by Fremont.<sup>21</sup>

<sup>19</sup> Ibid., lxxv. The Commission stated that there was a legal obligation on the part of the Government to pay, but that this obligation arose not from Fremont's contract, but because the arms did pass into army service.

<sup>20</sup> Court of Claims Reports, ii: 98, etc.

<sup>21</sup> Ibid., 99. In arguing for the Government the U. S. Assistant Solicitor said to the court:

"The arms were purchased by Arthur M. Eastman, *from* the United States, at *three and one-half dollars each*, because they had been inspected and pronounced unserviceable by the ord-

These are the facts as set forth in unimpassioned court records.

COURTS MAKE THE GOVERNMENT PAY.

Did Morgan and his associates get their full demands from the Government? They did. Judge Peck held that when Fremont had agreed to buy the rifles he had entered into a contract which bound the Government, and that a contract was a contract. The court took no cognizance of the fact that the worthless, condemned rifles had been represented as new, nor did it consider the fact that the money with which they had been bought from the Government was virtually Government money. It gave Stevens a judgment against the Government for \$58,175.

It was this particular decision which assured the open sesame for the holders of what were then cynically called "deadhorse claims" to collect the full amount of their swindling operations. The Government could now plead itself defenseless against the horde of contractors who had bribed officials to accept decayed ships and defective armor, worthless arms and shoddy clothing, flimsy tents, blankets and shoes, and haversacks which came to pieces, adulterated food and similar equipment and supplies. As for criminal action, not a single one of these defrauders went to prison, or stood any danger of it; the courts throughout the land were perennially busy rushing off petty defrauders to imprisonment and em-

nance officer. They were sold by Eastman to the claimant for twelve and one-half dollars each, and the claimant at once sold to General Fremont at *twenty-two dollars* each. The Government price for *new* arms of this pattern, of good quality and fit for service, was seventeen and one-half dollars."—Ibid., 98.

ploying the full punitive power of their machinery against poor, uninfluential offenders.<sup>22</sup>

This was the real beginning of J. Pierpont Morgan's business career; the facts are there immovable and unassailable in the public records. This was the brand of "patriot" he and his fellow capitalists were; yet ever since, and especially so to-day, clergy and politicians and shallow, obsequious writers saturate the public with myths all designed to prove Morgan's measureless benevolence and lofty patriotism.<sup>23</sup>

<sup>22</sup> In reporting to Congress, on March 3, 1863, the House Select Committee on Government Contracts, after submitting its great amount of testimony regarding the frauds on every hand, concluded:

"Many frauds have been exposed, the Government relieved from many unconscionable contracts, and millions of dollars saved to the treasury. Yet it is a matter of regret that punishment has not been meted out to the basest class of transgressors. They to whom this duty belonged seemed sadly to have neglected it. [*Worse than traitors in arms are the men pretending loyalty to the flag, who feast and fatten on the misfortune of the nation, while patriot blood is crimsoning the plains of the South, and bodies of their countrymen are mouldering in the dust.*] The leniency of the Government towards these men is a marvel which the present cannot appreciate, and history never explain." — House Reports, Committees and Courts of Claims, Third Session, Thirty-seventh Congress, 1862-63, Report No. 50: 47.— But history can explain. It was not to be expected that the very class controlling Government—the capitalist class—was to be proceeded against by its creature.

<sup>23</sup> For example, an article entitled "Cleveland's Opinion of Men," in "McClure's Magazine," issue of April, 1909. The writer of this article quotes Cleveland, for several terms President of the United States, as saying of Morgan's conduct when a bond issue was under way in 1894:

"I saw, too, that with him it was not merely a matter of business, but of clear sighted, far-seeing patriotism. He was not looking for a personal bargain, but sat there, a great patriotic banker, concerting with me and my advisers as to measures to avert a peril, determined to do his best in a severe and trying crisis."



**J. PIERPONT MORGAN.**



## CHAPTER VIII

### THE FLOWERING OF THE MORGAN FORTUNE

"Great is Mr. Morgan's power, greater in some respects even than that of President or kings," wrote a seasoned British observer some years ago<sup>1</sup> which fact, patent to even the casual onlooker, easily passes uncontested. Who, indeed, can gainsay its truth? Above all forms of law and functionaries of office, above the highest representative bodies and tribunals, above enactments and Constitutions, supreme above eighty-five millions of American people, this one man towers with a hold and grasp of power as tremendous as it is portentous. And what has awarded him this mighty power? Has it come by vote or wish of the people or by some incongruous provision of Governmental machinery?

Nay, none of these things are responsible for it; despite them all it has come about, and it persists in mockery of them all. Then, wherein lies the explanation? Need it be told anew? The cause and substance of it all are Morgan's wealth and his dictatorship, shared with a few others, of the resources of the nation, which ownership carries with it the real ruling power, for whoso own the means by which the people must live  
owns the people.

<sup>1</sup> A. Maurice Low in "The Independent," issue of October 30, 1902.

And Morgan to-day controls billions of dollars of the country's resources.

#### MORGAN THEN AND NOW.

Can this Morgan be the same who started out by successfully palming off upon the Government during the Civil War five thousand of its own condemned rifles, and at extortionate prices? Is it possible that the man who profited from arming the nation's soldiers with self-slaughtering guns can be the same Morgan whose power to-day "is greater than that of President or kings"? Is the great, sublime patriot of these days, J. Pierpont Morgan, the same Morgan who came into collision with investigating committees during the Civil War, and who was practically denounced in the severest language? Verily, he is the same man, the identical same. Behold him in the budding of his career, and observe how he began it; and behold him now, glutted with wealth and power, covered with honors, august dispenser of benevolence, the incarnate source of all wisdom, financial and otherwise, the mighty man of commerce and of the arts, the idol of capitalist ideals.

Between that Civil War transaction and his present sway, necessarily there lies a long category of deeds. Undisputedly he began his career with proofs of exceptional brilliance. Had his first business achievement—that of the condemned rifles—been judged by the standards of the "lower classes," he would have been thrown into prison, or had the soldiers who had to use the guns come within his proximity, the life, peradventure, might have been shot out of him then and there. But his own class, far from having a remote thought of abhorrence or ostracism, admired his busi-

ness skill, mettle and audacity, and regarded him as an extraordinarily promising young man. Great things were predicted for so astute an novitiate; yet novitiate was not the word: the most experienced business man could hardly have done better than did Morgan in that famous rifle sale.

Moreover, Morgan had other advantages which assured a notable future. He had a millionaire father, which was a relationship to be trebly prized at a time when millionaire progenitors were not so very numerous. The paternal advice and guidance, based upon a protracted career in the serpentine channels of wealth getting, could unfailingly be drawn upon. Additionally, J. Pierpont Morgan had the backing of the old man's millions and prestige, and — what was more important — would some day inherit those millions. All of these factors were infallibly the prelude to a glorious career.

#### HE ATTAINS "UNIVERSAL RESPECT."

The respect of the mercantile and financial classes for Morgan's proved ability grew proportionately with each new display of his capacity. Presently we find a contemporary biographer saying of him: "Mr. Morgan made himself universally respected as an able financier in 1869, when he came out victorious in a memorable struggle for the control of the Albany and Susquehanna Railroad, which had fallen into the clutches of Messrs. Fisk and Gould. The contest was waged not only by litigation, but also by force of arms, and Governor Hoffman called out the militia. Fisk was eventually dislodged."

It had not taken long for Morgan to arrive at the point where he was "universally respected." By "uni-

versally" the writer of that eulogy meant among Morgan's class, the opinion of which was held to be all-inclusive; that of the workers was considered of little or no account, and could always be ignored or ridiculed. But what was the real nature of this railroad business which made Morgan so "universally respected"? What great public service, if any, did he render? What was the special merit involved in his overthrowing of Gould and Fisk, and his getting control of the railroad in question?

Eulogistic writers fail to give enlightenment on this point. But what they omit, public records supply to some extent.

Had either Gould and Fisk, on the one hand, or Morgan, on the other, built the Albany and Susquehanna Railroad or provided the funds for its construction? Not a mother's son of them. This line, now a part of the Delaware and Hudson Railroad, had been built with public funds drawn from the treasuries of New York State and of various counties and municipalities in that State. At least \$1,000,000 of the \$45,000,000 drained from the public treasury in New York State for the building of railroads, had gone into the construction of the Albany and Susquehanna Railroad.<sup>2</sup>

The usual pilfering processes marked its building; large sums were stolen in various forms of graft; and, as in the case of the Erie Railroad and other railroads, the State was cheated out of much of its loans. Then the group of capitalists in control watered the Albany

<sup>2</sup> See Railroad Investigation of the State of New York, 1879. Poor's Railroad Manual of the United States for 1869-70 reported: "The construction of this road has been largely aided by money appropriated by the State, the sums (\$1,000,000 in all) representing which do not appear in the capital accounts."—p. 69.

and Susquehanna's stock and manipulated it for speculative purposes until they were ousted by other capitalists who repeated their manipulating methods on a larger scale. This railroad's chief value lay in the fact that it had direct connections with the coal mining regions of Pennsylvania.

Two contesting sets of capitalists now rushed forward to seize control of it. One crowd was led by Gould and Fisk, the other by J. Pierpont Morgan. The older capitalists were amazed at the sight of these young men audaciously struggling for the possession of a valuable railroad system, in the construction of which neither set had had any part whatever. Old Commodore Vanderbilt looked on with a blended admiration and envy. Gould was but thirty-three years old, and Morgan thirty-one. Each side bought all of the stock that it could; Gould with the proceeds of his thefts, and Morgan possibly with the proceeds of such transactions as the rifle sale, for instance. Stockholders' elections were held amid scenes of the greatest disorder, and each party claimed the election of its own board of directors, and accused the other of the grossest frauds.

Quite appropriately the contest went into the courts. Twenty-one separate suits were brought by Gould and Fisk, and a sheaf of injunctions obtained. The Morgan party fought back vigorously. But so long as the legal contest was confined to the New York City courts, Gould and Fisk had the surety of victory. The reason was that such Supreme Court judges as Barnard and Cardozo, formerly Vanderbilt's tools, were now Gould's chattels and did whatever he ordered.

Very soon an edifying situation turned up. So fiercely determined was each side to kick out the other that the railroad was thrown into a state of absolute

disorganization and could not be operated. After spending a million dollars of public money on its construction, the people were forced to look on while the two parties, neither of whom had invested a dollar in its building, claimed to be its owners, and estopped the other with judicial orders and injunctions.

Which of the two would come out ahead? The outcome was doubtful. But it did not continue so very long. Gould and Fisk were cleverly entrapped into making an agreement which led to their utter eventual defeat. The agreement was to this purport: That inasmuch as the conflicting parties could not agree, they had arrived at a mutual understanding by which they would write to Governor Hoffman setting forth that it had become impracticable to run the railroad, and therefore requesting the appointment of a State official to operate it pending a new election of directors. This communication was sent to Governor Hoffman on August 11, 1869, and its provisions were accepted.

#### BOTH SIDES CHARGED WITH FRAUD.

In less than a month after this, separate elections were held; each side again claimed that its directors were elected. More suits followed. Gould and Fisk charged that Ramsey, president of the road, had illegally issued three thousand shares of stock to the Morgan party, and demanded that this issue be declared invalid. Morgan, Samuel Sloan and others of the opposition retaliated with charges that Gould and Fisk had used force and fraud. The State of New York now stepped in, and through the Attorney General, brought an action against both parties. The State charged that both stockholders' elections were illegal, irregular and void; that spurious

votes had been counted in, and that otherwise they were full of fraud.<sup>8</sup> The State asked for an injunction restraining both boards from taking possession.

The case came up again in November, 1869, before Judge Darwin Smith in the Supreme Court at Rochester, N. Y. Gould and Fisk found themselves at a great disadvantage. In New York City, with their bought judges on hand, they could arrange for decisions in advance, but in Rochester they were in a territory where the power of competitive magnates was strongly entrenched. Judge Smith's decision was wholly favorable to the group of capitalists led by J. Pierpont Morgan, and the Albany and Susquehanna Railroad passed into their control.<sup>9</sup>

This seems to have been J. Pierpont Morgan's first entry into the railroad business in which later he was to become so powerful a factor. Thenceforth, for nearly thirty years, until the period of organizing industrial trusts began, his chief undertakings were his banking business and what was called "the reorganization of railroads."

The two things worked well together. By means of financial laws, corruptly passed, the bankers, both international and national, compelled the people of the United States, through their Government, to present them with the funds with which to buy up railroads and other forms of property.<sup>10</sup> We have already described

<sup>8</sup> Lansing's Reports, New York Supreme Court, 1:308, etc. The statement of the case in the decision frequently refers to "the party headed by J. Pierpont Morgan."

<sup>9</sup> See, The People of the State of New York vs. The Albany and Susquehanna Railroad Company, Lansing's Reports, N. Y. Supreme Court, 1:308-345.

<sup>10</sup> Under the surface, the Rothschilds have long had a powerful influence in dictating American financial laws. The law records show that they were powers in the old Bank of the United States. August Belmont and Company were their American

the financial system prevailing in the United States during and immediately following the Civil War; how the people were taxed from \$18,000,000 to \$20,000,000 a year to pay interest annually to the bankers and other bondholders. We have also showed how the bankers had laws passed by which they could deposit their Government bonds in the United States Treasury and receive back the full amount in currency, less ten per cent.

Thus the banks received a double interest; often as much as six per cent. in gold in annual interest from the Government, and a far greater amount in interest for the public use of the currency which they were gratuitously allowed to issue on the strength of the deposited bonds.\* At the same time, they were relieved from paying taxes on Government bonds. Their profits, obviously, were enormous, averaging twenty, fifty, and often one hundred per cent. in the course of a year. The laws also were so devised as to insure them a virtual monopoly of the currency supply — an incalculable power in manipulating industry and the markets, and in controlling speculation in stocks.

In its resolutions passed at Military Hall, New York City, on October 19, 1829, the Workingmen's Party had denounced the bankers as "the greatest knaves, impostors and paupers of the age." A violent tirade this seemed on its face, but, in point of fact, there was hardly a banker in the country who was not constantly

representatives. In 1873 it was estimated that \$375,000,000 of American railroad securities were held abroad, chiefly by foreign bankers. The Final Report of the Industrial Commission in 1902 estimated (see page 404 of that report) the amount of these securities held by foreign banking houses and others abroad at about \$3,100,000,000.

\* The fact has been brought out in a previous chapter how the Government from 1863 to 1878 had paid out to national banks the great sum of \$252,837,556.77 as interest on bonds.—House Executive Document, No. 34, 1879.

and criminally violating the law by committing some species of fraud or other. Year after year the courts were full of lawsuits in which this or that banker was charged with fraudulent transactions. There is little scientific use in describing Morgan's career without adverting to an illuminative mention of what other conspicuous bankers were doing, both before, and during, his time. Ever and ever anew it will be seen that Morgan was doing nothing more than emulating the traditional practices of his class.

#### A VISION OF SOME "GREAT" BANKERS.

Perhaps the foremost banker in the United States in the first four decades of the nineteenth century was Nicholas Biddle, that proud aristocrat and founder of a family of aristocrats. He was long president of the once all-powerful Bank of the United States, and was held up to the whole country as an illustrious example of the position to which any able and well-regulated youth could attain.

Yet he was accused of being a thief, an embezzler, a malefactor in law. After his retirement from the presidency of the Bank of the United States, that institution brought a civil action against him and the cashier, John Andrews, for the restitution of \$400,000 which they were charged with stealing from the bank in 1836. This theft, it was further specifically charged, was concealed by fraudulent entries, burning of vouchers and by other methods. By the time the suit came up in court in 1844, Biddle had died, but the action was pressed against Andrews. His answer was a general denial, but Judge Parsons decided that he was convinced that the claim for recovery was one which could be enforced, and he over-

ruled Andrews' demurrer.<sup>7</sup> And to give merely one instance of many instances of the methods of powerful bankers during Morgan's early career, let us consider the case of Bischoffsheim and Goldschmidt. They it was who loaned Jay Gould the money to pay fraudulent interest on fraudulent bonds in his Erie Railroad thefts; they supplied the money to pay fictitious dividends, and when they saw more profit in betraying him, they quickly changed front and poured out the \$750,000 with which Gould's directors of the Erie Railroad were bribed to resign.<sup>8</sup> By such methods they heaped up great fortunes; when Goldschmidt died a quarter of a century ago he left an estate of \$30,000,000.

#### LAWS DRAFTED FOR PLUNDER.

But the extraordinary financial laws passed during the Civil War were only the forerunners of other laws which the bankers and the creditor class in general caused to be passed in following years, and by which they instantly and vastly increased their wealth and power, and were enabled far more effectually than ever before, to put the screws upon the producing class.

The most noted of these laws was that passed by Congress on February 12, 1873, practically accomplishing the demonitization of silver as a coin. This was the same Congress which, as we have seen in one of the chapters on the Sage fortune, was bribed with a million

<sup>7</sup> Parson's Select Equity Cases of the First Judicial District of Pennsylvania, 1844, ii: 31-63. Also, Pennsylvania House Journal, 1842, Vol. ii, Appendix: 182. Biddle's theft has been incidentally referred to in a previous chapter, but it stands a more extended notice here.

<sup>8</sup> Railroad Investigation of the State of New York, 1879, ii: 1496. See also New York State Assembly Documents, 1873, Vol. vi, Doc. No. 98.

dollars to pass an act granting an additional subsidy of \$5,000,000 to the Pacific Mail Steamship Company. The demonitization act went through by evasion; not a word was directly mentioned in it of the demonitization of silver; few knew of its purport; even the advocates of bimetallism voted for it. It was one of the most adroit bills ever put through Congress, and it was only after it had become a law that its concealed provisions began to be understood.

Then a terrific cry of rage went up from the middle class from one end of the country to the other; the excitement was intense. In this excitement and indignation the working class was persuaded into joining, although at basis, the workers were not affected by this law; their exploitation and despoilment had gone on under bimetallism, and would continue without cessation under monometallism.

It was the middle class which was struck at hard; the supply of money was at once contracted, the purchasing power of gold was enhanced, and the power of the large creditor capitalists and banking institutions over the small property owning class was greatly augmented. This law was passed at about the same time that the first trust, the Standard Oil Company, was rising to give the death blow to the doctrine of free competition in trade, and to crush out the middleman in business. The day was a sorry one for the long-dominant middle class.

The middle class representatives in Congress and elsewhere now began an agitation which lasted many years.<sup>9</sup> They charged that the demonitization of silver had been brought about by the conspiracy of John Sherman and a

<sup>9</sup> The millionaire silver mine owners of the West, although not to be classed with the middle class, were the leaders in this agitation. Self-interest actuated them.

few other prominent men in Congress, with the financiers of Wall street and Europe. In fact, the successive volumes of the "Congressional Record" of those years are full of speeches in which this charge is brought out over and over again. But the law stood; and what was more galling to the middle class, John Sherman, denounced so bitterly as a traitor, and as a mercenary of the bankers, was appointed, a few years later, to be Secretary of the United States Treasury. From that time on, the bankers, national and international, came out more and more in the open in direct dictatorship of the financial laws and policy of the United States. Circumlocution became less necessary.

The great Government bond issue of 1877, by which the bankers made colossal profits, followed Sherman's appointment. Before, however, referring to this memorable sell-out, it will be well to give a passing glimpse of Morgan's varied activities and the nature of them. Morgan's first partnership was as a member of the firm of Dabney, Morgan and Company, which firm, it will be recalled, was one of the banking houses participating in that noted Kansas Pacific Railway loan of 1869. This loan was asked for from investors largely on the strength of a three-million-acre land grant in Kansas and Colorado, which had been corruptly secured by the Kansas Pacific Railway Company from Congress, and which was the beginning of not one series, but many series, of fraud and plunder.<sup>10</sup> Morgan could claim, and with justice so far as current standards went, that the floating of this loan was a "legitimate banking transaction"; but the fact that no banker declined to profit from the financing of enterprises which he knew began and

<sup>10</sup> See Chapter iii, Vol. iii.

continued in corruption and swindling, gives a very clear idea of the quality of the assumed morals and ethics of the capitalist class.

#### THE GREAT BOND ISSUE OF 1877.

Morgan's next partnership was as a member of the firm of Drexel, Morgan and Company. He began to be conspicuous in very large transactions. One of these was the floating of the \$260,000,000 U. S. Government bond issue of 1877. Avoiding plunging into detail, which would be intricate at best, suffice it to say that this bond issue was generally regarded, and not without full reason, as one of the very worst cases that had ever been known of the people being betrayed over to a few bankers. The selling of the bonds was apportioned among these banking houses: August Belmont, the Rothschilds, J. and W. Seligman Brothers, and Drexel, Morgan and Company, the last named acting for themselves and for the firm of J. S. Morgan and Company in London. This syndicate at once sold the bonds at an advance of from one to four per cent. above the price which they had paid to the Government. The profits of the syndicate reached into the tens of millions of dollars. Drexel, Morgan and Company alone were credited with "making" a clear profit of \$5,000,000. Their function consisted in nothing more or less than acting as licensed speculative middlemen for a Government which could have disposed of the bonds without intermediaries. Moreover, the participating bankers were able to get the bonds for themselves at "bargain prices," and then through associated national banks, carry on the familiar practice of exacting double interest — one in-

terest from the Government, and another for the use of currency issued on the basis of those same bonds.<sup>11</sup>

These transactions comprised obviously but a few of Morgan's varied activities in the decades following the Civil War; it can be well understood that he was, at the same time, engaged in a mass of purely private business dealings, of which no details ever became public. Even of his public transactions the facts as set forth in the public records are more indications, than actual and complete accounts, of the underlying circumstances. The financiers and business men had every motive for enshrouding their affairs in the greatest secrecy, particularly when those affairs in any way related to the diverting of Government functions for their ends, or had to do with the suspicious passage of partial laws or the violation of laws. The motto of the whole commercial class was to keep the public in the dark as much as possible; and even when the usual legislative investigating committees, fortified by summary powers of law, mildly sought to ascertain the surface of acts only, without probing too deep, they were, as a rule, obstructed at every turn.

Such facts as did become public came out adventitiously despite every effort of the magnates concerned to hush them up. Sometimes embittered competitors would supply revelations to investigating committees; on other occasions the magnates would seek to cheat

<sup>11</sup> The scandalous circumstances of this bond issue made a lively stir throughout the country and aroused warm debates in Congress. On January 24, 1879, the United States Senate passed a resolution calling upon Sherman, Secretary of the Treasury, for information as to the alleged payments of double interest in regard to moneys received by banks and syndicates for bonds being allowed to remain on deposit with national banks pending the call for the bonds.—See Senate Executive Document, No. 9, 1879.

one another in the division of the spoils or overreach at the other's expense, and then the quarrel would be thrown into the courts and some salient facts, at least, revealed. The point cannot be too strongly emphasized that for every one charge of crookedness and corruption that investigating committees and public officials made against capitalists, a hundred such charges were specifically brought by capitalists themselves against their own kind; a fact overabundantly attested in the voluminous court records from the very beginning of the United States Government down to the present.

#### MORGAN AND WILLIAM H. VANDERBILT.

Had it not been for a row between various magnates in a transaction in which William H. Vanderbilt, J. Pierpont Morgan and other capitalists were engaged, and the consequent wrangling in the courts, certain facts pertaining to another of Morgan's feats could not be now ascertained. In one of the chapters on the Vanderbilt fortune<sup>12</sup> it has been brought out how, in 1879, Morgan formed a syndicate to buy two hundred and fifty thousand shares of New York Central stock from William H. Vanderbilt, and how further, this stock, bought at 120, was, after a magical process of manipulation in the New York and London stock markets, sold at 130, thereby yielding the syndicate an immense profit. "This," wrote a biographer, "gained for Mr. Morgan the confidence of Mr. Vanderbilt, who intrusted him in 1885 with the task of adjusting the difficulties between the Central and West Shore roads."

Morgan, however, did not need to solicit anybody's "confidence"; he was a truculent, aggressive financier,

<sup>12</sup> Chap. vii, Vol. ii.

with a dominating, even fierce, personality, and with great power in his own field, that of banking. His mind was of that resolute, masterful order declining to be balked by any man or set of circumstances, and his methods were not distinguished by delicacy. "His method of treatment is drastic," wrote this same biographer of his railroad organizations, "and the holders of junior securities have made many a wry face, but the method has seemed to be efficacious. From \$1,000,000 to \$3,000,000 is generally put down as the commission for reorganization going to the house of J. P. Morgan and Company,<sup>18</sup> for knowing how to do it and doing it." Between these lines can be legibly read the nature of Morgan's "efficacious" methods; they will be still more illuminated, by force of his own words and acts, further on in this narrative.

Contrary to the description so widely and continuously disseminated, many capitalists are not men of personal courage, in the sense of standing up, man to man, and verbally "having it out," as the vulgar phrase goes. The cunning, cupidity, turpitude and treachery so impregnated in business, and, in fact, the foundation of successful business, breed both a physical and moral cowardice. Well able, as they are, to fight their combats through lawyers, most capitalists, by reason of a certain degeneracy, lack the faculty of exercising a strong, direct, personal, virile influence over men, such as a fighting pirate captain of the old days held over his band. Morgan has been one of the few exceptions. United with his wealth there has been in him a powerful belligerent personality, a tremendous vitality both of mind and physique; a man who could impose his will by sheer

<sup>18</sup> The firm of Drexel, Morgan and Company was succeeded by that of J. P. Morgan and Company.

brute strength as well as by reasoning; who could convince by argument, and if necessary, bulldoze and terrorize.

Such a combination allied with wealth and education (for he was college bred) and a complete knowledge of all the tricks of the trade, was bound to prove invincible, or almost so. His very appearance, arising from an unfortunate facial disfigurement, added to his forceful appearance, and to the terror which he inspired. Not inappropriately did he name his yacht *The Corsair*; he was a modern embodiment, in a present-day guise, of some antique corsair, the qualities simply being transposed for adaption to new conditions.

#### GREAT MAGNATES YIELD TO HIM.

Instead of having to squirm himself into Vanderbilt's confidence, he compelled that haughty magnate to come to terms. This fact Morgan himself testified to in the suit arising from Vanderbilt's South Pennsylvania railroad project—a transaction which has been described heretofore. This litigation, it will be recalled, sprang from Vanderbilt's building a parallel line to compete with the Pennsylvania Railroad. Morgan, it was true, had acted as Vanderbilt's financial agent, but he also had heavy interests in the Pennsylvania Railroad, and his banking house represented large foreign holding interests in that line. Above all, he was on the sharp lookout for the interests of J. Pierpont Morgan.

How did he force Vanderbilt to sell his South Pennsylvania line to the Pennsylvania Railroad? In an examination, on December 13, 1885, before Examiner John H. Weiss in the Federal Court at Philadelphia, he related that when he returned from Europe in June, 1885,

he "became satisfied that something should be done to bring more harmony among the trunk lines," and he added that he believed that "sufficient pressure could be brought on Mr. Vanderbilt to induce him to sell out." Of the specific nature of this "pressure," no explanation was given, but those familiar with the immense coercive power of the Pennsylvania Railroad, and the power of Morgan's bank, and that of his correlated banks, were not in doubt as to its significance. The treaty of peace between the warring magnates was finally made aboard Morgan's yacht. What was Morgan's part? To use his own language, he "bought from the South Pennsylvania and sold to the Pennsylvania." What his rewards as arbiter were was a fact not made public; we can conjecture that his bill was no slight one. This treaty, like all such agreements, was made only to be broken; the Reading Railroad which, under the pact, was to be indemnified for certain property, claimed that it was cheated; hence the suit.

Up to this time, that is to say, 1886, Morgan had figured little as a railroad magnate; his conspicuousness was more that of a powerful banker who made a specialty of reorganizing railroads. Let it not be supposed that the term "reorganizing" comprehended the undertaking of expensive improvements in the physical layout and operation of railroads; the introduction of safer appliances and equipment, and the minimizing of danger to passengers and to railroad workmen.

Reorganization included none of these things; there was not a railroad corporation in the country which did not violently contest the passage of laws requiring safety apparatus, and which did not violate such laws as were finally passed; progressively, the yearly death rate of

passengers and railroad employés increased.<sup>14</sup> The profits, in the form of dividends, came not only from a series of extortions, but from the slaughter of a greater number of men, women and children than were killed in the worst wars that the civilized (or rather, uncivilized,) world has known. The "reorganizations," so called, were not intended to change these conditions; their sole purpose was to put the railroads in a position where profits would be assured, no matter at what public expense or at what cost of life. After a railroad had been grabbed and thrown into bankruptcy by successive crews of capitalists, a reorganizer, such as Morgan, would step in, compel the creditors to settle at his own terms, force the small stockholders to consent to some new arrangement of stock, and issue new securities to be sold in Europe or America. In brief, a "reorganization" consisted in scaling down the debts, or summarily expunging them, and in devising new plans by which the profits would be greater.

#### RECURRING CHARGES OF FRAUD.

For doing this, Morgan was hailed as a man of wonderful constructive acumen — a financier of first-rate order. Frequently, however, as we shall see, the small stockholders did not share this opinion; and occasionally they forgot their expected gratitude so far as to

<sup>14</sup> The number of railroad employés killed or injured increased from 22,000 out of a total of 704,743 in service in 1889, to 92,178 of a total of 1,672,074 employed in 1907 — an increase from 3.12 per cent. in 1889 to 5.51 per cent. in 1907. From 1888 to 1907 not less than 53,046 employés were killed while at work, and more than 800,000 employés were either maimed or crippled. These figures have been compiled from the annual reports of the Interstate Commerce Commission.

charge him in court with fraud.<sup>15</sup> This was Morgan's great role for many years; as a reorganizer, not as a proprietary railroad magnate. The great railroad potentates of the period up to 1889 were the Vanderbilts, Goulds, Sage, Blair and Huntington. They were the men recognized in Congress as the lords of the railroad systems, which fact is patent from a scrutiny of the "Congressional Record," in which, with great abundance, recur wordy denunciations of them for gross corruption and for consecutive violation of laws. Morgan's name was not mentioned in these accusations.

But it was not long before Morgan came to the front as one of the foremost railroad magnates in the United States. His aggressiveness of character and action, his truculent boldness in smashing down obstacles, his contempt for artificial restraints of law, his disregard of public opinion, and his knowledge of how to apply power where it would produce the best results—all of these qualities and capacities were the very ones needed at that precise time.

#### THE CAMPAIGN AGAINST THE MAGNATES.

A troubrous time the railroad and industrial magnates were having. It was the period when the middle class, in its fury at being on the verge of overthrow, was most active in having all sorts of anti-trust legislation passed.

<sup>15</sup> For example: In the case of the Toledo Railway and Terminal Company, the Ohio Savings Bank and Trust Company filed a petition in the Federal Court at Toledo, Ohio, on August 5, 1907, asserting that fraud had been used in connection with the sale of that road, and charging collusion between Morgan and other railroad magnates. By this collusion, it was alleged, an agreement had been reached by which the property was sold at a low figure through the smothering of competitive bidding, and that this had been done to defraud unsecured creditors. The petition was overruled.

This class was obdurately determined to keep things as they were. On the other hand, the great magnates, in line with the momentum of modern economic forces, were being forced into effacing the middleman in every direction, and in centralizing ownership. The middle class had the number and traditions; the magnates had the money and the power; as for the working class, despite its strikes, it was merely, in the long run, a pawn in the combat. The Standard Oil Company had built up its power largely by reason of the secret railroad rebates and discriminations. If a drastic law could be passed against the railroads, the middle class argued, the rising trusts would receive a fatal quietus—a futile kind of reasoning, but one sincerely believed in at the time and for a long time afterward. The great aim of the middle class, therefore, was to get through Congress a strict interstate commerce law, such as would, under heavy penalties, forbid rebate giving and railroad pooling.

The Congressional sessions of 1884, 1885 and 1886 were, to a great extent, occupied with long debates over this proposed law. The middle class was quite sure that it was the victor. Senator followed Senator, Representative followed Representative, in arraigning the railroad magnates. If speeches signified anything these magnates were already on the highroad to defeat and to prison. Senator Van Wyck, of Nebraska, thundered for days at a stretch. "For years," said he, "capital has been organized, bold, unscrupulous, rapacious, law-defying, moving as did Gould, according to his sworn testimony, in New York, and Huntington, by the evidence of his own written testimony, upon State legislatures, upon the courts, upon the Congress of the United States, unblushingly purchasing judges and legislatures.

. . . In a republic they despise the people and control its representatives.”<sup>16</sup> “The time has come,” put in Senator Conger, “when generalities, glittering and otherwise, will not satisfy the demands of the people. They demand a positive, incisive, direct and plain law.”<sup>17</sup> Senator Call, of Florida, had his say, and it was a long one, none of which is worth quoting except his assertion that the railroads had issued \$3,000,000,000 of bogus bonds, and that they were assessing the people of the United States to pay an actual taxation of \$300,000,000 yearly.<sup>18</sup> More than one Senator and Representative dwelt indignantly upon that \$300,000,000 of annual enforced taxation extorted by the railroads. And so the debate went wearily on, tiring out everyone but the talkers themselves, whose stock-in-trade was talk. Would the flow of words never end?

#### THE MIDDLE CLASS TRICKED AND BEATEN.

At last an interstate commerce law was passed. Great was the rejoicing among the middle class. Its components exulted in their victory, and in visions foresaw their dominance soon restored and the trusts ruined and extinguished.

But after a comparatively brief interval their jubilation became blank dismay. This law, this great, long-agitated for law, which was to intrench them so effectively, turned out to be an utter sham. On its surface its provisions read fair and smooth; but when it went to the courts the perforating began, as its authors in-

<sup>16</sup> “Interstate Commerce Debates in Forty-second Congress,” 1886-87: 62.

<sup>17</sup> *Ibid.*, 127.

<sup>18</sup> *Ibid.*, 148.

tended, and for which contingency they had expressed and equivocally drafted it. One clause after another was, on this or that ground, declared inoperative by the courts; the Interstate Commerce Commission, which the law established, had not even the power, it was decided, to compel the attendance of witnesses, and the courts refused to grant writs of subpoena in aid of its proceedings. Furthermore, railroad officials (who were the only persons whose testimony could secure a conviction) were excused from testifying on the ground that by so doing they might incriminate themselves. In a word, the Interstate Commerce Commission, on the establishment of which as a peremptory tribunal the middle class had built such high hopes, was found to be nothing more than an inane body which was allowed to devote itself to the harmless pastime of collecting statistics, but was empowered to do nothing more serious.

Again the bewildered middle class found itself woefully routed. While it had been holding meetings and talking and petitioning, the magnates had sent a stream of "silent arguments" coursing through the exalted wall of Congress. And, in fact, some of the very members of Congress who were so vigorously inveighing against the "high-handed" corruption of the railroad magnates, and demanding punitive laws, were, at this very time, themselves implicated in a great scandal.

#### THE PAN-ELECTRIC SCANDAL.

This was what was called the "Pan-Electric Scandal"; and if any reader desires to acquaint himself with the vast ramifications of corruption in Congress, in the courts and in the legislatures at the time let him (if

he dare) read the 1,284 page of testimony taken by a Congressional Investigating Committee.<sup>18</sup> The Pan-Electric Company was a competitor of the Bell Telephone Company: at least, it energetically attempted to be. The Bell Company had already established the validity of its patents in the courts, although not without having to face and fight down charge after charge on the part of other inventors that it had appropriated the fruits of their inventions. The testimony before this particular Congressional Committee was full of charges, sometimes mere insinuations, at other times open accusations, that in order to attain its victory, and to secure favorable decisions, laws and franchises, the Bell Telephone Company had bribed Congress, the various legislatures and judges either by money or by gifts of stock.

Against the Bell Company the Pan-Electric Company seemed powerless; but as a last resort, its promoters began a campaign of corruption to get the United States Government to move in the courts for the vacating of the Bell patents. Large blocks of stock were distributed among various influential Senators and Representatives, some of whom offered no objections to being made directors of the Pan-Electric Company. United States Attorney-General Garland upon whose say-so depended whether the suit for vacating the Bell patents should be brought or not, held, it was charged, not less than \$10,000,000 of stock in the Pan-Electric Company, for which stock he had not paid a dollar. When the Pan-Electric promoters were interrogated as to these methods they cynically pointed out that the Bell Telephone Company had begun its career by using precisely the same

<sup>18</sup> See House Miscellaneous Documents, Forty-ninth Congress, 1885-86, Vol. xix.—“Testimony taken by the Committee Relating to the Pan-Electric Telephone Company.”

methods. In this fight, the Bell Telephone Company succeeded in completely vanquishing its threatening competitor, the Pan-Electric Company, which soon passed into nothingness.<sup>20</sup>

Such was the majority composition of a Congress from whom the middle class expected such great and public-spirited reforms; this was the Congress which was to pass laws that would forever check "the greedy, insatiable inroads of the monopolies!" "Monopoly" was the particular bugbear of those years; the generic thing that politicians could always conveniently convert into personal political capital in their constituencies by flagellating it with roars of denunciation, which was an exceedingly popular pose. The word "trust," be it noted, as signifying a complete monopoly, had not then come into popular usage. Those virtuous outbursts in Congress against the monopolies, served the purpose well, but one overshadowing fact neither the middle class nor the working class seemed to note, namely, that whatever might be *said* in Congress, nearly every bill apparently drawn to curtail the power of monopolies and wealth was so ingeniously drafted that its so-called vital provisions failed to stand the test of the courts. Yet the lawyers in Congress who drew these bills were ranked as the foremost "Constitutional experts" in the land — a situation not at all contradictory to those who understood the double-faced nature of the performances at Washington.

Many States were passing drastic anti-trust laws. These laws did not essentially arrest the growth of trusts, but they did have the effect of spreading a certain timidity among magnates or would-be magnates. The power

<sup>20</sup> The present Telephone trust originated in the Bell Telephone Company. J. Pierpont Morgan is a large stockholder.

of wealth, it was true, controlled the machinery of Government, and criminal proceedings were little to be feared. Still, with the public temper in the inflamed state in which it was, there was never any telling what might break forth.

The great railroad magnates, in particular, were tired of a competition resulting in the cutting of rates, increased expenses, and diminished profits. They were eager to form a combination effective enough to prevent competition in the respect of undermining one another's freight and passenger rates. With such an agreement in force, profits would be immensely increased, and upon the strength of those increased profits, more watered stock could be issued.

#### MORGAN AN EMERGENCY LEADER.

But who was audacious enough to undertake the initiative in forming this combination? In a way, it was a perilous thing to do. If unbought or unintimidated public officials should take a notion to prosecute criminally, its promoters and beneficiaries were liable, upon conviction, to a long sojourn in prison. Vanderbilt, Gould and Huntington and other magnates, while caring nothing for law, did not choose to take the lead; moreover, as they were jealous and distrustful of one another, it would not have been judicious for anyone of them to have done so.

The ideal leader in this exigency was J. Pierpont Morgan; and how he stepped forward and molded the nebulous plan into a definite, concrete combination, will now be related.

## CHAPTER IX

### MORGAN AS A BANKING AND RAILROAD GRANDEE

On January 2, 1889, a circular marked "Private and Confidential," was issued by the three banking houses of Drexel, Morgan and Company, Brown Brothers and Company, and Kidder, Peabody and Company. The most painstaking care was exercised that this document should not find its way into the press, or otherwise become public. Indeed, extraordinary measures were taken to surround its contents with every precaution of secrecy.

Why this fear? Because the circular was an invitation, tacitly understood as a command, to the great railroad magnates to assemble at Morgan's house, No. 219 Madison avenue, and there form, in the phrase of the day, an iron-clad combination. The plan was to make a strict compact which would efface competition among certain railroads, and unite those interests in an agreement by which the people of the United States could be bled even more effectively than before. For the sake of appearance, in case the nature of the undertaking should leak into public print, the promoters garnished over their real purposes with a string of diverting phrases. Their sole aim, so they pleasantly indited it, was an association "to maintain public, reasonable, uniform and stable rates," and they added that another object would be the gathering of statistics regarding railways.

Such subterfuges deceived nobody but the credulous or uninformed.

#### A HISTORIC MEETING IN MORGAN'S HOUSE.

That circular is a historic document, well worth more than passing notice; and he who is familiar with the forces then at work will rightly consider it of far greater importance than Presidents' messages, ordainments of Congress or Courts' decrees.

At a time when the whole gravamen of law and juridical precedent was being used to insist upon industrial forces remaining stationary and stagnant, this circular came as a proclamation of defiance. Common and statute law sternly declared that the thing called competition in trade must be kept alive, and that if it could not sustain itself by its own merits, the law should demand its maintenance. The causes producing and justifying competition were passing away, but none of the law-making bodies recognized the newer conditions, nor made any provisions for them. But the magnates realized that the old indiscriminate system of competition was rapidly becoming archaic, and that the time was ripe for a more systematic organization of industry. And so, while Congress and the legislatures were busily enacting law after law, supposedly edicts of "the sovereign people of the United States," a few magnates issued a brief circular which intrinsically was of far, far more binding weight than entire volumes of statutes impotent, in the long run, in the face of onrushing economic forces.

But the ideas of the people at large and the self-interest of the middle class were against any overthrow of the competitive system. Tone their statement of pur-

poses down, as the magnates did, and however harmless they might represent their aims, the plan of this group of bankers and railroad grandes was certain to arouse the sharpest suspicions. A restless, sullen state of mind pervaded the mass of people. Distrustful of any assertions made by the magnates, they were ever ready to see sinister projects beneath bland announcements. Furthermore, the magnates' definition of "reasonable" was diametrically different from that of the people at large. Matters and charges that the magnates honeyed over as "reasonable adjustments," impressed the popular understanding as extremely unreasonable; as gross extortions of which the law should take condign notice.

#### WRECKING THE MIDDLE CLASS GRADUALLY.

At the behest of the middle class laws directed, superficially at least, against the magnates' arbitrary power and concentration of resources were everywhere being passed. Since the putting down and dissolution of the great labor movement of 1886, serious inroads from that quarter were no longer feared. But the work of extinguishing the middle class had to be proceeded with slowly and discreetly.

Workers' uprisings, political or other, could be crushed by force and court decrees and by bribery and fraud at the polls. In any emergency the whole middle class would stand with the great propertied interests in subduing the working class. Yet when the fight for supremacy was one confined to the middle class and the plutocracy, the magnates had good reason not to attack the middle class too openly. The country swarmed with organizations of manufacturers, jobbers and small tradesmen, and in the West and South the Farmers' Alliance,

an ally, was at its strongest. This middle class arrogated to itself the distinction of being "the public." The working class, whom it used and exploited, had only a few obscure trade journals to disseminate its views and voice its demands, and, although comprising the immense bulk of the voters, had not a single real representative in political office. But the interests of the middle class were represented by thousands of newspapers and journals; by a host of political spokesmen and lawyers and college professors, and by the force of prevalent law and commercial institutions.

In warring upon the magnates the most persistent argument that the middle class used in its appeal for sympathy and support, was that the extortions of the magnates were immoral. Precisely as, when the workingmen in previous decades had struck for a shortening of their hours of daily labor, the manufacturers had declared the movement insurrectionary and immoral, so now they used the same plea against the exactions of the magnates. When the workers complained that their bosses oppressed them, the bosses retaliated with the charge that the workingmen were unruly, and that their demands for redress were not based on morality. But when the magnates squeezed the manufacturers, jobbers and retailers then these divisions of the middle class made vehement lamentations that they were the victims of an immoral conspiracy.

Nothing could exceed the baseness and hypocrisy of the middle class, as a class. It demanded the widest latitude in law in placing no restrictions upon it either in exploiting its employés, or in robbing back from them in various swindling ways the meager wages it paid. It insistently fought the workers' struggle for a shorter workday and more wages; it opposed the passage of even slight laws

for the protection of the workers' labor; it combated movements for factory and tenement reforms. At the same time it insisted upon its right to make and sell shoddy goods and adulterated products, and impose them upon the workers at extortionate prices.

The many laws which, after strong agitation on the part of labor organizations and various other bodies, the different legislatures were passing at this time, indicate the widespread practice of manufacturing and selling adulterated and often poisonous foods and drugs. The passage of these laws had long been contested by the capitalist class, as a whole; and even after they were enacted, they were not generally enforced, and were so ineffective that, many years later, during Roosevelt's administration, a National Pure Food Act was passed by Congress after the severest and most persistent opposition on the part of the beneficiaries of the frauds. This law, also, has been largely ineffective.

In 1879, Wisconsin enacted a penal law, providing penalties for the adulteration of foods and drugs. Ohio, in 1887, 1896, and 1898 passed laws for the punishment of various kinds of adulteration. New York, in 1893 and 1898, passed laws forbidding the fraudulent sale of certain imitation foods and certain fraudulent stamped goods. After years of agitation, Massachusetts, in 1897, passed a law (Chap. 344) prohibiting the manufacture or sale of adulterated food. Missouri, in 1889 and 1897, passed laws against the adulteration of certain foods. Iowa enacted laws for the punishment of those selling adulterated milk, cheese, butter and linseed oil. Illinois, in 1881, passed a law against the fraudulent manufacture or sale of imitation butter, and re-enacted it in 1897. New Jersey, in the same year, passed an act to prevent the adulteration of foods and

drugs, and enacted another law in 1897. Pennsylvania prohibited the sale of adulterated drugs, and provided penalties for the adulteration of milk and cream. Michigan, in 1895, passed an act to prohibit and prevent adulteration, fraud and deception in the manufacture and sales of articles of food and drink. Nebraska and Kentucky passed similar laws. South Dakota, in 1885, enacted penal laws relating to the adulteration of food and drink, and, in 1897, passed another act increasing the penalties. These are some examples of the various State laws. Nearly all of the States also passed laws against the sale, by fraudulent weights and measures, of coal, wheat and various other foods and commodities.

#### CHARACTERISTICS OF THE MAGNATES' CRITICS.

Not a move, on the other hand, could the magnates make without the middle class raising the cry of fraud — a not untrue accusation, it is hardly necessary to say, but one singularly ill-chosen from a class itself gangrened with fraud. The Farmers' Alliance and kindred organizations virtuously fulminated against the extortions and frauds of the magnate class; the cattle dealers of the Southwest especially were not merely bitter, but rancorously so, against the railroad kings. Yet all of the large cattle ranches had been obtained by fraud in more or less degree.<sup>1</sup> The cattlemen not only practiced extortions, but in their economic wars with adjacent cattlemen, forced their cowboys to fight and kill the cowboys

<sup>1</sup> See House Reports, Forty-eighth Congress, Second Session, 1884-5. Executive Document No. 267: xxiv. This document deals with the Texas ranches. In previous chapters of this work many facts have been given from official documents showing the illegal, and often violent, seizure of cattle ranches throughout the West.

of their neighbors, and risk being killed themselves; nearly all of those cowboy affrays so romantically described in fiction, arose from nothing more or less than economic disputes between competing rival cattle-men.

To say that the entire manufacturing class was defrauding and swindling in every conceivable form is but to state a truism elaborated upon specifically in many a public document.

Leaving aside the current stupendous frauds in profiting from misleading semi-worthless merchandise, or adulterated products sold under false pretenses — a traffic shared in by wholesaler, jobber and retailer; aside from this phase and a multitude of other phases, we shall simply give one typical graphic example of what the manufacturers were doing in one of the largest manufacturing States in the Union. While protesting against the evasion of taxation by the railroad corporations, the manufacturers were defrauding in the one item of taxation alone of a sum gigantic in the aggregate. "It is a notorious fact," reported Comptroller Morgan, of New York State, in 1900, "that hundreds of manufacturing companies, whose plants are located in this State, whose business is chiefly transacted here, and which for all practical purposes are New York enterprises, escape all indirect taxation in this State, and much local taxation, by being incorporated in other States." They paid substantially nothing for fire and police protection, Comptroller Morgan added.<sup>2</sup> Yet in case their employés struck, these manufacturers were ever ready to requisition the pretext of violence and demand police and militia to club or shoot into submission the very working

<sup>2</sup> Annual Report of the Comptroller of New York State, 1900: xxiii.

class from whose labor the entire burden of taxation came. This had been a long-continuing condition of affairs in every State.

#### MORGAN DIRECTS MATTERS.

These facts will give a fairly clear idea of the composition and pretensions of that middle class which the news of the meeting in Morgan's house was bound to excite into convulsions. A momentous gathering it certainly was that assembled in Morgan's mansion on January 8, 1889. Who are they we note there? Apparently private citizens; in reality monarchs of the land: Jay Gould with his son George, held by the leading strings; Stickney, of the Northwest territory; Roberts, of the Pennsylvania Railroad; sleek Depew, echoing the Vanderbilts; Sloan, of the Delaware, Lackawanna and Western Railroad, and a half dozen more magnates or their accredited mouthpieces. The honorable legislatures could gravely discuss the advisability of this or that legislation; the noisy "Congress of the United States" could solemnly meet and after wearing out months in rodomontade, profess to make laws; the high and mighty Courts could blink austere and pompously hand down their decisions. But in that room in Morgan's house sat many of the actual rulers of the United States; the men who had the power in the final say of ordering what should be done.

Morgan was chairman of the meeting, and with wonted brusque directness went straight to the point. Thanks to a stenographic report of the proceedings which fortunately we have been able to get hold of, the work of that meeting is clear. The name of the organization was to be the "Interstate Commerce Railway Commis-

sion"; its essential purpose the cessation of competition among its members. But how was any magnate to be prevented from competing with another, or stopped from encroaching upon another's domain? What penalties should there be, and how could they be enforced? Certainly no law could be invoked to compel the carrying out of such an agreement, for the law explicitly prohibited combinations, and any legislation would not only be outlawed, but would reveal the extent of the whole criminal compact.

#### HE DELIVERS A MANDATE.

There was, however, a far greater power than that of law, namely, the power of massed money. If any magnate present were inclined to balk at the prepared program he was brought to an instant realization of the punishment when Morgan announced:

I am authorized to say, I think, on behalf of the [banking] houses represented here that if an organization can be formed practically upon the basis submitted by the committee, and with an executive committee able to enforce its provisions, upon which the bankers shall be represented, they are prepared to say that they will not negotiate, and will do everything in their power to prevent the negotiation of, any securities for the construction of parallel lines, or the extension of lines not approved by that executive committee. I wish that distinctly understood.<sup>8</sup>

The threat, or promise, as it could be differently interpreted, was assuredly understood. Vast as was the wealth of the magnates present or represented, neither any one or a combination of them, dared (had they been

<sup>8</sup> "Proceedings of Conference Between Presidents of Railroad Lines West of Chicago and St. Louis, and Representatives of Banking Houses, held at No. 219 Madison Avenue, New York, January 8 and 10, 1889": 36.

so disposed) to defy such an ultimatum. To do so meant inviting the vindictive, crushing wrath of a clique of national and international bankers whose money and power could be used with the most destructive results. Nor was there any possible way of appealing to a higher power.

What if many of the State legislatures had penalized combinations in restraint of trade? What if the irate middle class was frantically clamoring for the enforcement of these laws? What if in both common and statute law this coercive decree of the bankers was criminal conspiracy? Every man in that assemblage knew that, judged by prevailing laws, he was participating in a conspiracy, yet no apprehension was acutely felt that the numerous national and State laws would be strictly enforced against him. So confident of its ground was the meeting, that the subject of possible prosecution was not given a thought. The sacred doctrine, the "inalienable, undeprivable right" of competition was, without any ambiguity or ceremony, given a deadly blow. For that, if for no other reason, the meeting was memorable. The magnates were sure of immunity. To them laws were instruments not obstacles; the same code of laws which they lightly stamped under foot they could always successfully use against workingmen on strike, as they did, for example, five years later, in the great railroad strike of 1894, when Federal troops were ordered out at their command to overawe, and, if necessary, mow down the strikers.

Another phase of that meeting (a "conference," as it was called) deserves mention. How much of a vacuity men were considered, magnates though they were, and how all important property was held, was shown by the method of voting. As each proposition was advanced,

it was put to a vote. The names of the magnates were not mentioned in the roll-call; it was the corporate railroads which were expected to vote and which did vote. Thus, instead of Gould's name, the name of his railroads was called; the Missouri Pacific and the Wabash voted, not Gould. What could have been more beautifully simple and direct, so free from cant, so faithful to the spirit of the human money bags present? If this method were only adopted in Congress much good in point of popular understanding would result, for while the old forms there still persist, most of our "statesmen" would not be libelled were the roll-call made by corporations instead of by putative representatives of the people.

If a mere threat of the powerful bankers, led by Morgan, was enough to convince or overawe a group of the railroad dictators of the United States, what could not the banking power accomplish when it actively concentrated its might of money upon a given object? Neither capitalist foe nor any government could withstand it. The extremes to which it could go in successfully executing its plans and in dissipating all obstacles by its terrorism, was typically shown in a noted bond deal, in 1895, whereby the United States Government was held up by a syndicate of bankers headed by Morgan, and forced to give over a virtual gift of many millions of dollars for the privilege of having a nominal and transient claim on a supply of gold which those same bankers had drained from the United States Treasury only a short time previously.

#### THE WALL STREET VIEW OF MORGAN.

Before describing this transaction a digression will be made to chronicle some intervening facts in Morgan's ca-

reer. His father died in 1890, bequeathing to him a fortune superficially estimated at \$10,000,000. But it is needless to say that J. Pierpont Morgan was already a seignorial multimillionaire. That he was intensely hated by a large portion of the element in the financial district was undeniable, but it was a hatred caused not by objection to his methods, but because he eminently surpassed in either the brutality or finesse of those methods. All of his decriers of his own rank had at basis some personal grievance resolving itself into a rankling enmity at being outwitted or outdone by Morgan. Had he given them the slightest opening they would have enmeshed and swindled him and gloated over the deed.

But with the exception of one distinguished antagonist, to whom we will refer later, he anticipated and overcame them all, and left many of them with the embittered memory of their collision with him, but with nothing more substantial. No doubt Morgan's personality had much to do with this current hatred on the part of those who came into contact with him; he was at no time to be suspected of being of the unctuous order of men, full of blandishments and sweetened guile. Rather, he was a sort of plug-ugly in the financial purlieus, belligerent and ruthless, with a rough, dictatorial manner, unsparing of the feelings or interests of those who in any way crossed his will or plans.

Those personal details, however, were not known to the great mass of the people the country over. The popular conception of men in public notice was derived almost wholly from what the newspapers said, and these constantly, with rare departures, portrayed Morgan as a great financier and benevolent gentleman. In Morgan's financial transactions immense numbers of the middle class, as well as people higher in the scale of the

well-to-do, lost, in the aggregate, great sums of money torn from them in the stockjobbing operations in Wall street. But they did not blame Morgan personally; their bitterness was cast at the generic monster called Wall street. And yet not a single one of those thus stripped had not deliberately set out to enrich himself at someone else's expense; even those who put their funds in stocks for the purpose of "legitimate investment," did so with the full knowledge that the lower the wages paid on the railroads and in the factories, and the longer the daily labor of the workers, the brighter were the chances for a larger dividend.

At the same time, while hated in the financial district, Morgan was deeply feared for his far-reaching power, and what were considered his relentless methods both in accomplishing his ends and in settling scores. Observers usually described him, in the slang of Wall street, as a man who was in business "for all there is in it." As though anyone else were in Wall street for a different purpose! His policy was regarded as that of finding a weak spot in a corporation and then "squeezing it for all it was worth"—a very much biased accusation, inasmuch as every other successful financier incontrovertibly pursued the same methods, although not always in the same way. His favorite expression, when questioned about his transactions was, "I am not in Wall street for my health." His enemies whispered about that he was a "freebooter in finance"; his admirers—those who profited by his bounty—loudly proclaimed his greatness.

#### HE COMES TO THE FRONT AS A COAL MAGNATE.

Of Morgan's methods in seizing, in conjunction with William H. Vanderbilt, the Philadelphia and Reading

Railroad from McLeod, in 1893, we have already given a description.\* In that account it was shown how, when McLeod pressingly needed funds both to finance his railroad's coal combination and to pay for improvements, he found that the leading banking institutions had impaired, and then cut off, his credit. Morgan and Vanderbilt were then able to assault and beat down the price of Reading stock, buy large quantities of it at a very low figure, and gain control of the system. As a railroad, the Reading line was not extensive; its great value lay in its ownership of anthracite coal mines, of vast unmined deposits, and in its coal-carrying traffic.

To his other manifold powers Morgan now added that of coal magnate. The Constitution of Pennsylvania, as we have seen, expressly forbade railroad corporations from owning and operating coal mines. But that law did not exist which the very rich were not able to evade. Dummy holding companies were organized; and, although everybody knew that these companies were mere subterfuges, the public authorities took no action, and when, after many years of inactivity, they, with indifferent energy brought suit, the case was appealed by the magnates to the Supreme Court of the United States, from which, in 1909, the railroads emerged victorious with a decision of so equivocal a nature as to be tantamount to one in their favor.

Two immediate results signalized Morgan's entry as a monarch of the coal fields. To both we have adverted in a previous chapter, but they will here bear repetition. Every housekeeper using hard coal was taxed to add more millions to Morgan's fortune; the price of stove coal was raised from \$1.25 to \$1.35 more a ton than had been charged before. The second result was the

\* See Chapter vii, Vol. ii.

more rapid process of crushing out the independent coal operators. By a concatenation of ruthless methods<sup>6</sup> these independents were ruined and driven out, not without much wailing against oppression, and shrill charges of fraud.

Yet the very mines which they were virtually coerced into giving up had been secured by fraud, either by them or by their predecessors. The law records of the State of Pennsylvania reveal case after case, before and after the Civil War, of fraudulent tax sales of lands containing coal; and the bribery of the Pennsylvania Legislature by individuals and corporations for coal mining and other kinds of charters and special rights had been so admittedly brazen that, in 1847, the Legislature, with self-righteous display, was constrained to pass an "Act to Define and Punish the Offense of Bribery," making the crime of giving or receiving a bribe a felony, punishable with a fine not exceeding \$5,000 or a sentence of five years in prison.<sup>7</sup> This law was treated with levity; it had no other effect than to refine and obscure the methods of bribery. Another act was passed on March 3, 1860, and a third on April 29, 1874, which laws were likewise facetiously regarded by the seekers of vested privileges, and the bribery went on persistently.<sup>7</sup> Time

<sup>6</sup> See testimony before the House Committee on Interstate Commerce, House Reports, Fifty-second Congress, Second Session, 1892-93, Vol. i.

<sup>7</sup> Laws of Pennsylvania, 1847: 217.

<sup>7</sup> One of the many continuous scandals growing out of the corruption of the Pennsylvania Legislature was that of the passage of an act in 1876 in the interest of the lumbermen. Members of the Legislature were paid or offered from \$300 to \$500 each to vote for or against the bill. This bill was entitled, "An Act to Regulate the Amount of Toll and Other Charges to be Laid and Collected by Boom Companies." It was fought by certain interests. See, "Testimony Before the Committee to Investigate the Means to Secure or Defeat the Passage of the Boom Bill," Pennsylvania Legislative Docs., 1876, Vol. v.

after time the Legislature of Pennsylvania was forced to appoint investigating committees to report on this or that charge that bribes had been used; one of the few times when any of the bribed ever went to prison was in the Riot Indemnity Bill trials in 1879-80.

Some excuse was needed to give the appearance of a necessity for the great increase in the price of coal. The coal magnates supplied it beforehand. They inquired how they could avoid charging more. Had not the production of coal fallen? And were not the freight rates extremely high? But the Government knew that these claims were fabrications. The House Committee on Interstate Commerce had unanimously reported that the coal magnates had deliberately reduced the output of coal; that although the capacity of the collieries was 50,000,000 tons a year, yet only about 40,000,000 tons were being mined, so as to make a show of scarcity. And as regards freight rates for coal the committee reported, "Although coal in freight can be handled cheaper than almost any class of freight, yet it pays nearly double the rate of wheat and cotton."<sup>8</sup>

Without quibble, this combination was a conspiracy, criminally and civilly liable. But neither National or State law was enforced against it. The House Committee reported that the Interstate Commerce Act was too ineffective a law to proceed under, and that ended talk of criminal prosecution. The Government machinery of the United States practically became (as it did in so many other instances) an accessory of the coal combination in allowing it to squeeze more huge extortions from the sufferings of the mass of the people.

The boasted Government "of, for and by the people," was a Government run wholly by the great propertied

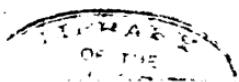
<sup>8</sup> House Reports, etc., 1892-3, i:iv.

interests as a necessary appendage, based upon force, for compelling the people to submit without redress or quarter. Such operations as this explain how Morgan's fortune leaped by millions at a time; every dollar extorted in that increase of price came very largely from families who, already burdened by a thousand and one extortions, were forced to suffer still more keenly; each new compression from above drove them deeper into abject poverty, with all its demoralizing and horrible evils. The whole edifice of capitalism was built on a vast, ghastly charnal house, overcrowded with the bones of numberless victims. Yet the industrial grandes who thus slaughtered with impunity in the insidious ways of trade paraded themselves as very devout men: Morgan was a vestryman of St. George's Church, New York City, and ostentatiously passed the contribution plate in the name of Christ.

To this coal transaction of Morgan's there is a sequel, showing how, and by what methods, he expanded as a coal dictator, but the recounting of this will be deferred to its proper chronological place, and that famous bond deal of his in 1895 will be considered.

#### TRANSFERRING GREAT RAILROAD SYSTEMS.

The two Drexel partners of his, Frank and Anthony Drexel, passed away, each leaving an estate of \$25,000,000. They, too, had acquired the glorious name of philanthropists; before dying they had together given away the sum of \$8,000,000 to found sundry charitable institutions in or near Philadelphia. Since their partnership with Morgan they had, of course, shared in all of his transactions. Some of these we shall have to pass over with only a reference, inasmuch as the facts



are exceedingly involved. But this one point sticks out: Great railroad systems, in the building of which neither Morgan nor his associates had in the slightest participated, which had been constructed largely with public funds and gifts of public land, and which they had never seen until long after they were in operation:—these railroads suddenly passed into the ownership of the Morgan combine, which largely meant Morgan.

How did this transformation come about? Shall we have to retell the old story; the original looting, the bankruptcies, reorganizations, and tricks of finance, squeezing out of creditors and small stockholders? However glib financial writers may attempt to explain it, or with whatever fine phrases apologists might gloss it over, the matter reduces itself to this trenchant fact: That Morgan became possessed of great railroad systems in the South, with the initiation and operation of which he had had no more to do than a babe. The Industrial Commission reported these railroads as being in the "Morgan group" by 1901: The Southern Railway, with its 6,807 miles of track; the Mobile and Ohio Railroad, the Queen and Crescent, the Central of Georgia (later taken over by Harriman), the Georgia Southern and Florida, the Macon and Birmingham, the Philadelphia and Reading, the Lehigh Valley, the Erie (subsequently acquired by Harriman), the Central of New Jersey, and the Atlantic Coast line.\* The total extent of these railroads was 19,073 miles.

Compared to the tortuous and difficult details of Morgan's "reorganizations," the tale of his United States bond transaction of 1895 is simple enough to be easily comprehended.

As gold was the international trade standard of value,

\* Final Report of the Industrial Commission, 1902, xix: 308.

the United States Government followed the policy of holding a certain amount as a treasury reserve. When, by reason of some cause or other, this reserve was depleted the Government was compelled to issue bonds to replenish it.

The powerful junta of leading national and international bankers definitely and deliberately forced the United States Government to put out these bond issues. This they did by draining the treasury of its gold, and by then going through the empty form of selling back that gold in return for bonds. The treasury notes and greenbacks, comprising much of the currency of the United States Government, were redeemable in coin. This provision was construed as calling for payment in gold. The bankers would take over to the sub-treasury in New York City great stacks of treasury notes and greenbacks and exchange them for gold. This gold they would then hoard in their vaults. The Government authorities were fully aware of this proceeding, and knew quite well that the ulterior purpose was to force a bond issue. After the banking clique had obtained the bonds, it could do two things—sell large amounts of them, at enhanced premiums, to smaller banks, savings banks, insurance companies, estates and investors in general, and it could use such portion of the issue that is kept as a basis for issuing new currency. The large private bankers, such as Morgan, had their chain of auxiliary national banks, by means of which bond issues could be converted into currency, and the time-honored extortion of getting a double interest could be managed.

#### “ MILKING ” THE GOVERNMENT.

In 1894 the Government had been drawn into handing over two bond issues of \$50,000,000 each to these

bankers. Their profits, it is estimated, reached tens of millions. With the advent of the year 1895 the United States Treasury was again emptied of gold. Where had the gold, which the Government had purchased only a short time previously at usurious rates, gone? The reports of the large banks gave the answer. By the end of January, twenty-six banks in New York City had in their vaults a hoard of \$65,000,000 in gold. Presently the amount totaled \$129,000,000, all told. The Government shrieked in helplessness; President Cleveland was reported as saying privately that "the banks have got the country by the throat."

At the appropriate moment a syndicate of bankers appeared in the open and magnanimously offered to supply gold to the Government in exchange for bonds. This syndicate was composed of J. P. Morgan and Company, August Belmont and Company, representing the Rothschilds; James Speyer, the National City Bank and four other extremely powerful national banks.

In the negotiations with President Cleveland for the bond issue, Morgan's emissary and clever man of law was Francis Lynde Stetson, who had been regular counsel for Morgan since 1887. Stetson had been Jacob Sharp's attorney at the very time when, in 1884, Sharp had bribed the New York Board of Aldermen with \$500,000 to give him a franchise for a surface railroad on Broadway. His activities in Sharp's transactions caused him to be subjected to some severe questioning in 1886 by the New York State Senate Committee on the Broadway Railroad. After Sharp had successfully bribed the New York Aldermen, Elkins and Widener, who were likewise bribing the Philadelphia Common Council and the Pennsylvania Legislature, and who became multimillionaire street railway magnates, tried

(although for the time unsuccessfully), to lease the Broadway Railroad for a term of 999 years, and as an earnest of good faith, deposited 10,000 shares of Broadway stock, which they had secured, with Drexel, Morgan and Company.<sup>10</sup> Morgan knew that every one of these shares was the product of bribery, and that the whole Broadway franchise had been so obtained. Perhaps Stetson's excellent and adroit work for Sharp highly commended him to Morgan.

After Cleveland had been defeated in his candidacy in 1888 for a second term as President of the United States, he resumed the practice of law, and formed a partnership with Stetson. Cleveland was reelected President in 1892; thereafter Stetson was a frequent and confidential caller at the White House. These various circumstances were much commented upon, and with particular animadversion, when Cleveland was virtually charged in 1895 with openly selling out the people of the United States to the Morgan syndicate, represented by Stetson.

#### EIGHTEEN MILLIONS AS A GIFT.

The situation, then, was this: The syndicate had squeezed the United States treasury of its gold; it had then compelled a bond issue, and declared that it alone could supply the required gold. This was a transparent falsehood. Many members of Congress urged Cleveland and John G. Carlisle, Secretary of the Treasury, to make the bond issue a "popular" one. By "popular" was not meant the mass of the people, who had neither

<sup>10</sup> See testimony of James W. Forshay, president of the Broadway and Seventh Avenue Railroad Company, New York Senate Committee on the Broadway Railroad, 1886, 491-492.

gold nor other kind of money, but from the smaller capitalist interests. Cleveland and Carlisle, however, turned over the \$62,000,000 of four per cent. bonds to the Morgan syndicate at the price of 104. The syndicate immediately resold the bonds to investors in America and in Europe at 118, 119 and 120, clearing, it was estimated, in direct profits, about \$18,000,000.<sup>11</sup> This sum represented the sum that would have gone to the Government had the sale of bonds been accomplished without this intermediary operation. The contract with the Government entirely dictated by the bankers, headed by Morgan, gave the syndicate, furthermore, an option on all bond issues up to October 1, following, and allowed it to choose its own time to deliver one-half of the total amount in gold.

From every public quarter came the severest denunciations of Cleveland, on the one hand, and Morgan, on the other. Even partisan newspapers and periodical supporters of Cleveland condemned the bargain as scandalous, and declared that the Government had been shamelessly "buncoed," if, indeed, no worse charge could be brought against its chief executive.<sup>12</sup> His own polit-

<sup>11</sup> The bond contract made with the Government, on February 8, 1895, was kept secret for some days. After the issuance of the bonds, Morgan personally superintended the receipt of the bids at his office. The rush to buy bonds from him was so great that twenty-two minutes after the bidding began, he announced that no more bids would be received; that the whole supply of bonds had been sold.

<sup>12</sup> Hardly had the gold reserve obtained by this \$62,000,000 bond issue been obtained, than it was again quickly drained by the bankers. In the latter part of 1895, sinister rumors spread that a new bond issue was under way. These rumors were confirmed by the issuance of a private circular by J. Pierpont Morgan and Company, announcing their purpose to form a syndicate to take over an expected additional issue of \$200,000,000 Government bonds. Morgan and his associates anticipated a profit of \$20,000,000. Evidently, Morgan knew the precise amount the Government intended to borrow; when the Govern-

ical party repudiated Cleveland. But a significant insight into the indifference with which the great magnates viewed storms of criticism was furnished by the fact that Morgan ignored the denunciation of his acts, yet deeply and openly resented a published description of himself as a "ruby-visaged magnate." He was very sensitive as to his facial deformities.

So far as strictures on his acts went, they soon passed away, and the very journals which had been foremost in verbally flaying him, reverted to their old sycophantic policy of extolling him as an illustrious financier and philanthropist. Of all the magnates, none had a more biting contempt for the newspapers than Morgan. None knew better than he that whatever outbreak they might occasionally make, their course on the whole could be easily controlled by the great propertied interests.

#### NOTHING FOR THE UNEMPLOYED.

To realize, however, the full import of the action of the Government in this particular bond sale, by which a

ment issued its call, its terms corresponded with those of the Morgan circular issued one week earlier. Such a public uproar resulted, that Cleveland and his Cabinet were compelled to throw over the Morgan syndicate, and the new loan was "popularly floated," at a saving to the national treasury of \$20,000,000.

It need scarcely be remarked, as a typical and memorable fact, that in his official correspondence and public statements, Morgan was representing himself as actuated by "patriotic considerations" and a desire to serve "the best interests of the Government and the people!" One Wall Street broker, in a public statement, cynically described it as "fascinating and lucrative patriotism." When Morgan was planning to get hold of the new \$200,000,000 loan, a banking friend asked whether he could not have some details of the syndicate's plans before subscribing. "Can't give you any particulars," Morgan was quoted as responding. "If you want to make some money and have got the gold, subscribe. If not, au revoir."

present of fully \$18,000,000 was made to a few bankers already surfeited with wealth, it is necessary to recall the conditions among the mass of people, especially after the panic of 1893. In normal times, according to the estimate of Carroll D. Wright, for some years United States Labor Commissioner, the number of unemployed at any one time was about 1,000,000 men, women and children. After the panic of 1893 the number reached perhaps 3,000,000. Not a finger was lifted by the Government in the aid of any of these, nor was the remotest consideration given to means for alleviating this misery or to the causes producing it. Repressive measures were used to suppress street meetings of protest, and leaders of labor unions were flung into prison on the alleged charge of contempt of the Federal courts. Only the year before, in 1894, the regular army had been ordered out by Cleveland against the railroad workingmen on strike. Nowhere and in no respect did Government do other than carry out the demands made by the great capitalists who dominated all of its functions.

## CHAPTER X

### MORGAN THE "PEERLESS CAPTAIN OF INDUSTRY"

With the advent of the year 1898 an epochal movement for the consolidation and centralized ownership of transportation systems, industries, public utility plants and mines set in. The trust era was now in irresistible swing. After a warfare of nearly thirty years in the courts and in the active political and industrial arena, the middle class found itself completely frustrated.

Eight years previously, in 1890, what was exuberantly heralded as a notable triumph had been secured in New York State. The courts there had declared the Sugar Trust illegal under the common law provision that no corporation, through its stockholders or otherwise, had power to give over its rights, powers and duties to a board of directors.<sup>1</sup>

The middle class jubilantly declared that no trust could survive so fundamental and sweeping a decision. But a new surprise was in store for that class. Instead of showing any trepidation or preparing for their dissolution, such trusts as were then in existence received the decision with most irritating equanimity, and serenely proceeded to perpetuate their corporate selves by donning a new legal garb. They not only continued to wax great and powerful, but the Sugar Trust, in particular, with the Havemeyers at its head, carried on continuously a colossal system of frauds upon the Government in the

<sup>1</sup> The People of the State of New York vs. The North River Sugar Refining Company, 121 N. Y., 582. Digitized by Google

fraudulent weighing of imported sugar. These frauds extended over a long series of years, and it was estimated, when the facts became public in 1909, that the amount of which the Government had been thus defrauded reached fully tens of millions of dollars.<sup>2</sup> In addition to these monumental swindles, the Sugar Trust continued so absolutely secure in its monopoly that it was easily able to crush all competitors, dictate tariff schedules, and extort, in the course of trade, an annual profit placed by some authorities at \$55,000,000 a year, or a total of \$660,000,000 in profits in the period from its organization to 1909.

Speaking in a large political sense, a last stand was made by the middle class in the Presidential campaign of 1896. That was its great, although not really final, attempt to defeat the plutocracy, and conquer the powers of government for its own policies. Under the leadership of Bryan the Democratic Party declared itself radical and tremendously and sincerely earnest, but its so-called radicalism was in essence a reactionary futile effort to extinguish the trusts and reestablish the old confusing competitive conditions in the production and distribution of goods. It was a bitterly-contested campaign in which immense sums of money were corruptly dis-

<sup>2</sup> After the Government had proved beyond dispute the commission of these great frauds, the American Sugar Refining Company, as heretofore noted, paid more than \$2,000,000 to the Government in April, 1909, as restitution for its swindles. But this \$2,000,000 covered only a mere part of the long-continuing frauds. None of the beneficiaries of these thefts were punished; the punishment of a few obscure customs weighers and some of the trust's employés was the only action taken. The directors of the Sugar Trust were also indicted in 1909, it is true. The indictment, however, was not for the customs frauds, but for violating the Federal anti-trust act—a meaningless indictment, conviction upon which carries, in practice, a nominal fine only.

tributed by the money interests of the Republican Party to defeat Bryan and the middle class.

#### THE PLUTOCRACY IN FULL POWER.

McKinley's election as President of the United States, with a Congress the majority of which was of his views, was a distinct notification that the plutocracy was in full power—a power won in a pitched combat, and therefore interpreted as a popular approval of the rule by great magnates and trusts.

Henceforth, it was well understood, the trusts need fear no govermental antagonism, even of a sham order; for while mock legal actions at no time impaired the basic sway of the trusts, yet they caused constant annoyances and expense.

When McKinley took office magnates of every description knew that the trust movement had full license, confirmed by private bargain, to go on unhindered and unmolested, except, perhaps, with an occasional inroad for spectacular popular effect. Consequently the business of organizing trusts flourished in the open; one trust after another was formed embracing about every known product. The work was carried on with phenomenal celerity and success. The middle class looked on impotently while factories, railroads, gas and electric plants, street railway lines, telephone systems and mines were converted from a state of individual or mere corporate ownership into the trust form, owned by great single corporations with stupendous amounts of capital, and with dictatorship over vast masses of workingmen.

In this revolutionary work, that of organizing trusts, J. Pierpont Morgan was one of the foremost generalissimos. Indispensable as it is in this work to describe the

methods by which he requisitioned his wealth, it is no less necessary to point out the services that he and his kind were doing for progress. In the exclusive consideration of progressive movements, it is immaterial what the motive was; the thing done is all that counts historically. None can deny that these revolutionary capitalists were actuated wholly by ambitiously personal ends: greed, pelf and the lust of power. But after all they were revolutionists without knowing it, and precisely the sort of capitalist revolutionists needed at that particular time.

Strong, ruthless men, bold in cunning and cunning in their boldness, were required for the work of crushing out the old cut-throat, haphazard, individualistic competitive system. That sluggish, money-grabbing, petty-minded body, the middle class, preoccupied with the comfort of its belly and with its narrow conventions, had set its self-interest against the demands of progress. It declined to budge; it hedged itself behind walls of special laws; it sought to make matters travel backward. Under these conditions Morgan and his colleagues were the men for the task; forceful, dominating, arbitrary men, not scrupling at any means to attain their ends, contemptuous enough of law when it stood in their way, and powerful enough to defy it. Very expert destructionists were they. But they were also constructionists. They tore down to build up. A decayed, archaic industrial system they replaced with one of a far more systematic order, the forerunner of finer systems to come. Progress often works through queer instruments.

In the years closely following 1898 Morgan was especially prominent in many of these trust creations. An ubiquitous magnate he was, pushing his industrial conquests and overlordship in many variegated directions. Each accumulating success added millions of dol-

lars to his fortune. With a choice list to select from, what brilliant display of his financial acumen shall we take up first? Consecutively, the most pertinent is that noted Pennsylvania Coal Company transaction of his.

#### THE UNFAILING RECIPE FOR MAKING MONEY.

The plan which he had begun some years before of gathering in coal mining properties and coal carrying railroads, and of merging them into a combination, he persistently continued. The most important of all of the remaining independent companies in the Pennsylvania anthracite region was the Pennsylvania Coal Company. It controlled some of the most valuable mines in the center of the richest deposits. While paying wretched wages to its workers, it had for years been reaping sixteen per cent. dividends on a capital of \$5,000,000. Stowed away in its treasury it had, in the form of a surplus, a fund of \$10,000,000.

Here was a noble opportunity. Could any alert financier withstand the temptation? As soon as Morgan acquainted himself with the attractive facts, a plan of campaign speedily developed. He sent agents to scour the northeastern region of Pennsylvania, with orders to pay any price demanded for shares of the Pennsylvania Coal Company. Unobtrusively these discreet emissaries went about their mission. For months they traversed Pennsylvania, finally getting enough stock to insure Morgan's control, for which stock an average price of \$532 a share was paid.

What did Morgan next do? He sold the property to the Erie Railroad Company for \$32,000,000. This payment was in the form of four per cent. collateral trust bonds secured by mortgages on the Pennsylvania Coal

Company's property and by the New York, Susquehanna and Western Railroad, a line acquired a short time previously by the Erie. Nor was this all; an issue of \$5,000,000 of preferred stock was thrown in. But who controlled the Erie Railroad? The eminent J. Pierpont Morgan. As an individual he bought the coal property, and then, as dictator of the Erie Railroad, decided what he should be paid for it.

"Criticism," observed the Industrial Commission, with the dainty restraint characteristic of all such euphemistic official reports, "has been directed against this operation on the ground that the price paid by the Erie Railroad to J. P. Morgan and Company was excessive. Testimony before the Industrial Commission indicates this was in fact the highest price paid for such properties in the history of the business."<sup>3</sup> What this Commission feebly and so gently dismissed as "criticism" was, in reality, a general growl of indignation at Morgan's ease and audacity in calmly transferring to himself millions of dollars in so-called "profits." It was of this kind of transaction and similar varieties that the Industrial Commission elsewhere relieved itself of this declaration: "The possibilities of fraudulent profit are something enormous under such conditions."<sup>4</sup> For once, in making this clear statement, the Industrial Commission almost overcame its habitual timidity of phraseology, and called things by their true names. Yet what availed it to say that fraud was fraud when the beneficiaries were not even questioned by law? The amount pocketed by Morgan in this performance cannot be learned. "To what extent the bankers' profit rose," the Industrial Commission satisfied itself with reporting; "was not developed in the

<sup>3</sup> Final Report of the Industrial Commission, xix: 459-460.

<sup>4</sup> *Ibid.*, 326.

testimony before the Commission."<sup>5</sup> We may well judge that the profit could be estimated in millions.

#### THWARTED BY A GREATER MAGNATE.

While in control of the Erie Railroad, so rich with memories of Jay Gould's frauds and thefts, Morgan unexpectedly, and to his deep mortification, ran plump into his first great defeat. It came about in his attempt to put through a railroad juggling operation. Had it been successful he would have been able to appropriate the bulk of at least \$10,000,000 in "profits." The plan was the typically fraudulent one common among the magnates of buying in a railroad and then unloading it (to use the financial slang of the day) upon a trunk railroad system controlled by both buyer and seller.

Morgan had secured a controlling interest in the Cincinnati, Hamilton and Dayton Railroad. This line was composed of a number of former separate railroads and of various leased railroads. On September 20, 1905, the Erie Railroad bought this interest from a syndicate headed by J. P. Morgan and Company. The Erie directors, all registers of Morgan's orders, authorized the issuing of \$12,000,000 of four per cent. bonds, convertible into Erie common stock at 60, to pay Morgan for the Cincinnati, Hamilton and Dayton Railroad. Thus far the program had slipped on smoothly.

Suddenly came evidences of the most powerful opposition from quarters commanding obedience. Notice was served that the Erie directors must revoke their action. If they refused, costly reprisals would follow not only in litigation but by the application of a pressure that they could not resist. From whom did this mighty edict come?

<sup>5</sup> Final Report of the Industrial Commission: 460.

Who was the awe-inspiring magnate that could frighten Morgan into retreat?

His identity never came out publicly, but the surmise was rooted in Wall street that he was none other than E. H. Harriman. The belief prevailed that Harriman, representing the Standard Oil oligarchy, was seeking to get control of the Erie Railroad himself, and that it was to his interest at that particular juncture to thwart Morgan. The sequel has borne out that conviction: the Erie Railroad later passed under Harriman's control.\* Whatever was the nature of the secret means used to compel Morgan to face about, and whoever it was that used them, they were entirely effective. The Erie directors meekly rescinded their action, and the prospective \$10,000,000 in "profits" vanished like a dream.

#### A TISSUE OF SEQUELS.

What became of Morgan's Cincinnati, Hamilton and Dayton Railroad after he was forced to take it back?<sup>7</sup> This system, which he had been on the very point of selling to his Erie Railroad at a price so extravagant as to cause astonishment even among the veteran manipu-

\* In a list made public by the Interstate Commerce Commission in January, 1909, of the large railroad stockholders, J. P. Morgan's name did not openly appear as a stockholder of the Erie Railroad. But Walter B. Horn, a clerk in his office, was credited with holding \$14,502,600 of its stock, and the firm of J. S. Morgan and Co., of London, about \$2,000,000 worth. Harriman secured control of the Erie Railroad in 1909.

<sup>7</sup> "Moody's Manual" for 1908 (page 230) thus skims over this affair: "In September, 1905, the Erie Railroad Company acquired a controlling interest in the stock of this company [the C. H. & D. R. R. Co] and the jurisdiction of the Erie officials was extended to the lines of this company; but in November of the same year Mr. J. P. Morgan relieved the Erie Railroad Company of all its obligations in the matter and the C. H. & D. officials resumed the operation of their lines."

lators, was thrown into bankruptcy in about a month after the attempt had fallen through.

On December 4, 1905, Judson Harmon, one of ex-President Cleveland's intimates, was appointed receiver of the railroad, including its auxiliary lines, the Pere Marquette Railroad and the Toledo Railway and Terminal Company. Years of litigation followed. One aspect of these legal fights was the charge in court that Morgan had used fraud in getting back, into an ownership more absolute than before, this Toledo Railway and Terminal when it was sold in bankruptcy. The lesser stock and bondholders furiously protested against the species of reorganization that virtually deprived them of their holdings and struck their bits of wealth from them. But although they harried Morgan by a series of lawsuits, he swept them inexorably out of his way. And with what net result? Under his distinguished plan of reorganization, so styled, the new stock issued will be tight-handedly bound up for seven years in a voting trust of which Morgan will have dictatorial control to do as he minds with the Cincinnati, Hamilton and Dayton Railroad. Moreover, absurd as it may seem, his commission for "reorganizing" the railroad in such a manner as to force out the small stockholders and concentrate ownership largely in himself, will probably be several million dollars. He stands, therefore, partially, if not virtually, recouped for the evaporation of that \$10,000,000 in 1905.

In colloquial parlance, this "freezing out" of small capitalist stockholders has been one of the most conspicuous and inevitable accomplishments of the triumphant progress of our magnates. We have remarked how the Vanderbilts, Jay Gould, Sage, Huntington and other money kings did it. At every turn of the screw these

small parasites — nonentities when compared with the great grandees — would emit a dolorous wail, burst out into lamentations and accusations of fraud, and appeal for sympathy and succor. So long as they could defraud others, and reap wealth out of the sufferings and degradations of the working class, all was properly blissful. When they profited from fraud it was "good business," but when fraud was used against them it was denounced as criminally pernicious.

In disposing of them no magnate was more proficient than Morgan. In 1903 the stock of the Chicago Northwestern Railroad was selling at the market price of  $29\frac{5}{8}$ , and a large number of persons of means — merchants, professional people, legatees and others — held shares of that stock as an investment.

The railroad was then put through the usual astringent process of "reorganization." In all of these reorganization devices, reasons are found for levying a heavy assessment upon the stockholders. These levies are for the ascribed purposes of paying the expenses of the "reorganization," legal expenses, advertising, and millions in commission to the reorganizers. The assessments are frequently so onerous that the minor stockholders cannot afford to pay them; consequently, by explicit provision, their stock becomes forfeited. From  $29\frac{5}{8}$  the stock went down to \$1 (July, 1909); and what with declines of price and assessments thousands of individuals have been forced to part with their stock. Who got hold of that stock? The question is really superfluous. The stock was put into a "voting trust," with autocratic power for five years, and in command over all stands Morgan.

This stamping out of crowds of relatively small stockholders went on so constantly that it finally became

somewhat of a routine matter, so far as public interest was concerned. Only on some exceptional occasion, when it was blended with what were considered dramatic circumstances, did it call forth uncommon notice. But while each of the magnates was busily flinging out these hindrances and expropriating their property, he had to be on ceaseless guard against the incursion of some other magnate or of a combination of magnates. Incessant vigilance was imperative.

The warfare was necessarily a complex one, with its paradoxical aspects. The magnates fought the working class, and the working class fought back, sometimes aggressively, at other times on the defensive. Toward the middle class, however, the magnates were forced to use a double objective set of tactics. They had to crush the middle class and take its property away, either by direct spoliation on the one hand, or on the other, by inveigling its elements into investing their funds in great stockjobbing enterprises which subsequently turned out to be adroit swindles. In surveying this war of the classes the most remarkable phase has been the ease with which the great moneyed interests have traded on the shortsighted cupidity of the middle class. With the naive expectation that the magnates would fraternally and benevolently create riches for it, the middle class has poured its collective wealth into their schemes, only again and again to find that very wealth wrenched from it, and used to bring about its extinction as a class.

Surmounting these forms of the conflict in society was the titanic warfare among the magnates to hold back one another or to seize from the other spoils each had seized from the multitude below. When the interests of these lords of finance and industry clashed, then the thunderbolts flew.

Such a battle notably occurred in 1901. From whatever point of view it is considered, sociologically, philosophically or historically, it was an event full of curious instruction. It symbolized a new order of things; between it and the times when feudal dukes and barons and kings rushed to arms to settle their quarrels of self-interest, lay a long and broadening gap. These modern battles also carry their wake of ruination and death, but it is so indirect as not to be outwardly observable. The weapons are money, reinforced by cunning and fraud; very powerful weapons which none in these days have been able to withstand. Under the old system the feudal lord lost caste if he did not fight in person; success might often mean his own death. But no bodily risk is entailed to confronting money monarchs of these present happy days; they can make wealth fight for them in the stock markets; and if, perchance, it becomes necessary for them to determine their quarrels with capitalists of other countries by force, they can impress, through their governments, the working class, led by men trained by those governments in the art of slaughter, to do their fighting. Happen what will, their hides are safe.

#### A BATTLE OF MAGNATES.

The daily routine budget of news in May, 1901, was suddenly enlivened by the reports that an array of great magnates had rushed headlong into a fractious contention. There was unwonted commotion in high places. Morgan, James J. Hill, the Rockefellers and Harriman, the Vanderbilts and other superlative eminences were entangled in warfare. Here was rousing news, indeed. What was the meaning of this furor among the exalted? How did it begin and where would it end?

The cause was Hill's attempt to undermine the in-

terests of the other magnates concerned. Obviously this was an act properly calling for retaliatory measures. To his autocracy over the Great Northern Railroad, a line extending through the Northwest and Canada, Hill had recently added a leading interest in the Northern Pacific Railroad, which traversed parallel territory. The inception and construction of the Northern Pacific Railroad were replete with the usual corruption and jobbing, and with thefts of vast areas of agricultural, timber and mineral lands. This corruption will be hereafter dealt with. Plundered by various financiers, the Northern Pacific had been forced into bankruptcy. Hill had then obtained control.

His vista now widened. Why should he not have a direct share of the immense traffic converging at Chicago? To get this, he set out to manipulate himself into control of the Chicago, Burlington and Quincy Railroad. This move alarmed competitive magnates; they at once saw how the interests of their railroads in the Northwest and West would certainly be jeopardized. How could they ward it off, or at least neutralize its results? The most feasible plan presenting itself was to attack him on his own ground. With good strategy they began buying Northern Pacific stock. This would give them a voice in one of his own railroads. While Harriman, supported by the Standard Oil oligarchy, was doing this, Hill was straining himself to buy in more and more Northern Pacific stock, and Morgan was deep in the stockjobbing fray to safeguard his own extensive interests.

#### A PANIC CAUSED BY THEIR COLLISION.

With the very richest and most powerful men in America scrambling for Northern Pacific stock, its mar-

ket price shot up to an astonishing figure. Five months previously it had been in a rut at 58; it now rose sometimes as much as twenty-three points a day, reaching \$300 a share, and for a part of one day, \$1,000 a share. A "corner" surpassing in magnitude any previously known in railroad stock resulted. "The sacrifices necessary to secure funds for covering contracts," says the Industrial Commission, "precipitated a panic of widespread proportions."<sup>8</sup> Thousands upon thousands of lesser stockholders of other railroad securities were caught in the whirligig and ruined; as fast as the quotations of Northern Pacific stock went on increasing, those of other railroad stocks precipitately declined.

The upshot of this warfare might have been expected. The Standard Oil clique came out of it with augmented dominancy, and with added power in a region where previously it had not been so strong. While the country resounded with the mournful outcries of a scattered host of petty stock speculators, clawed out of their insignificant fortunes, the contending magnates amicably decided to arrange a new understanding. The disputed territory should be nicely partitioned among them, and affairs would be made tranquilly satisfactory. A "gentlemen's agreement," otherwise phrased "a community of interest," would cement their brotherly relations. Such a covenant would choke out competition, and simplify and enlarge the pleasant work of squeezing more tribute from the people.

Who was to be chosen as arbiter? Whose was the just mind to be entrusted with the selection of the new directors of the Northern Pacific Railroad? Morgan was the man chosen for the adjustment. No vague "gentlemen's agreement" for him however, when some-

<sup>8</sup> Final Report of Industrial Commission, xix (317. Google

thing better could be substituted. He conceived the idea of a huge holding company, an incorporated body to hold title to both the Great Northern and the Northern Pacific railroads. The Northern Securities Company was thereupon organized with a capital of \$400,000,000.

Upon the announcement of this, the people of the Northwest bestirred themselves in vehement protest. Were they not oppressed enough already? So crushing a monopoly must not be permitted, they declared; it would hold them in absolute thralldom; suit must be brought to void it. The United States Government did bring such a suit and pressed it. The motive for the great energy and ability shown in its prosecution has never been made clear. Was it to the secret interests of certain powerful magnates to break up the Northern Securities Company? The Supreme Court of the United States decided that it was an illegal corporation. But—and these buts always supervene—although the company formally and decorously dissolved, the principle upon which it was formed practically remained in force by virtue of another "gentlemen's agreement." The court mandate was one thing; its enforcement against the fundamentals, quite another. But the form of dissolution had been gone through and the law thereby was considered satisfied.

Thus, this decision, hailed by the middle class as a critical defeat for the trusts, was after all nothing but empty phraseology. Even while these opponents of the trusts were gleefully praising the Supreme Court of the United States as "the bulwark of freedom of trade," the trusts caused Congress to enact a law which knocked over the main prop upon which the middle class had been depending in its war upon the great centralized corporations.

For more than a decade trust organizers had been confronted with a national law decreeing fine or imprisonment or both upon conviction for engaging in any act in restraint of trade. None had gone to prison, nor controlling the entire functions of government, as they did, was there any prospect of the visitation of such a punishment. But the imprisonment clause was a constant irritant; why have it on the statute books when it could easily be obliterated? And why not also have a specific declaration of immunity? A solitary provision calling for fine in case of conviction, the magnates did not mind at all. It would give an appearance of deferring to public sentiment and, at the same time, could be well regarded jocularly by those at whom it was directed. When trust magnates were gathering in immense sums from illicit acts, what did a fine of a few thousand dollars matter? It was too trivial to bother over. Besides, even if the fine, by some extraordinary possibility were made heavy, it could be assessed, in turn, upon the consumer.

#### COMPLETE IMMUNITY FOR THE MAGNATES.

That annoying imprisonment clause, however, had to be thrown out of the laws, and it deviously was by an act passed by Congress in 1903. Concurrently, the same act reasserted and amplified the principle of granting immunity to trust officers. No matter how much or how often they violated the anti-trust laws, they were now absolutely secure from any possibility of prison sentence.

The Government might examine them with the greatest pretended inquisitiveness, and in the process draw out the most self-incriminating admissions, but this evidence as testimony could not, by the act of 1903, be used

against them in the trial of any criminal proceeding. Not only was the individual exempted; the corporation itself was distinctly relieved from prosecution for any penalty or forfeiture.

The triumph of the trusts was now intrinsically complete.

## CHAPTER XI

### MORGAN AT HIS ZENITH

By the end of the year 1902 J. Pierpont Morgan, reckoning by appearances, seemed to outrank every other American magnate; scarcely a day passed that the newspapers did not report some new achievement of his, or obsequiously render tribute to his ever-expanding power. In the public appraisement he bulked as a supervitally preponderant man, a figure standing out with an immense and peculiar distinction, eclipsing the most obtrusive political and industrial functionaries.

Contrasted with him, ostensible political rulers were innocuous ephemeral personages. For a time they might vociferously command attention, but their encumbrance was dependent upon the will of the magnates, and they were pushed up or pulled down as suited the policy and purposes of the great propertied interests. A long array of "eminent statesmen" had shuffled into solemn view, and for a while had been the cynosure of the nation, and then, like exploded rockets, had dissapeared into obscurity, or into a state akin to it. Yet, in another aspect, brief and borrowed as was their power, theirs was not the portion of oblivion; conventional history, which accepts the apparent as the real, documents and often perpetuates their names, ignorant of the fact that they were only the servers or servitors of particular impelling forces and interests.

Behind the nominal political masters stood the real masters — the great magnates.

#### HISTORICAL OMISSIONS AND MISJUDGMENTS.

Seeing that this is so, what vitally boots it whether this or that individual happened to fill the so-called great elective or appointive offices? In stereotyped historical textbooks and narratives the names of J. Pierpont Morgan and his like do not enter; not even a cursory glimpse is given of their deeds. Yet, in large part, these are the significant things that fundamentally have made actual history. Rulers have been allowed to make formal declaration of wars, but capitalists have commanded them. When it pleases the interests of capital to have peace, titular rulers are ordered to arrange it. Should rulers be so obtuse or stubborn as to stand in the way of capitalist interests, revolution follows. If, in a parliamentary country laws are somehow enacted contrary to the interests of the dominant capitalist class, those laws are effectively voided. All of which proves that, although presidents, kings and emperors may mightily pose as the "creators of policies," yet after all they are only the sounding-board creatures of money forces unnoticed by orthodox histories.

An overbearingly potent and heroic "great man" Roosevelt appeared; many a descriptive work has been written of him; and doubtless, in the curious nature of things, we are likewise fated to see many a statue of him. For what? If history tells the tale aright it will tell how he begged campaign funds from the very trust magnates whom he pretended to flout; how, in a critical moment in the national election of 1904, he so despaired of success

that he was forced to appeal to Morgan, Harriman and their fellow magnates for a fresh and immediate infusion of funds. The world does not revere a loser, unless he be a great one, and for a great cause. In considerable degree, Roosevelt fought the fight of a rapidly-decaying cause, that of the middle-class, a cause doomed to fall ignobly, and rightly so. On the surface he seemed the "big man" of the day; in point of fact, he was vanquished by such magnates as Morgan, Harriman and Rockefeller. They, to all appearances mere private individuals, defeated every move of him who was supposed to be invested with even greater powers than many potentates.

The irresistible progress of the trust movement and the all-comprehending power of the magnates, can be better estimated when it is recalled that it was during Roosevelt's administration that the most antagonistic campaign thus far essayed against the trusts was carried on.<sup>1</sup> At least it seemed so if invective and suits at law counted. But, at basis, Roosevelt, despite his pretenses, was an instrument of the trust magnates, which fact was connoted anew by the circumstance that he was the President who signed the act striking out the imprisonment clause from the anti-rebating act assuring magnates and corporations full immunity from criminal prosecution.<sup>2</sup>

<sup>1</sup> That is, against the "bad" trusts. How even the outward acts of officialdom were being made to conform to the interests of the ruling class was shown by the growing tendency to accept some trusts as "good," and so arraign others as "bad," although all trusts subsisted in violation of statute law.

<sup>2</sup> "Courage, honesty and the saving grace of common sense, according to Mr. Roosevelt, are the three things that will make men great," . . . wrote A. Maurice Low in "The Independent," issue of October 30, 1902. While thus humbly imploring the magnates for funds with which to finance his campaign, and relieving them by law from imprisonment, Roosevelt took spe-

It was proved again during the great coal strike of 1902 when Roosevelt was forced to beseech J. Pierpont Morgan to consent to some kind of arbitration settlement. True, indeed, Roosevelt, or those inspired by him, could darkly intimate that it were well for the coal magnates to come to terms; otherwise they might suffer criminal prosecution for violation of the act forbidding railroads from owning coal mines. But the magnates, well realizing how often they had heard this clap-trap sort of talk, and how empty and futile it all was, could pass it over with amused contempt. Then came the sight of the President of the United States, theoretically representing 85,000,000 of people, being compelled to parley and treat with a few magnates on their own terms. "The one man who controlled the operators," wrote A. Maurice Low (who, unquestionably, was one of the best informed newspaper correspondents at Washington), "was Mr. J. Pierpont Morgan. Everything else having failed his services had to be enlisted." Morgan instantly showed that he had the power of doing what the President of the United States acknowledged that the highest executive in the country in his own person could not do—a fact moving Low to exclaim reverentially (as quoted heretofore): "Great is Mr. Morgan's power, greater in some respects even than that of Presidents or Kings." Roosevelt could publicly boast of his having settled that strike,

cial occasion in 1907 to prejudice public opinion against Moyer, Haywood and Pettibone, officers of the Western Federation of Miners, when they were in prison awaiting trial. They were later acquitted of the trumped-up charge of murder brought by powerful capitalist interests in order to discredit and break up the progressive labor organization of which they were the heads. Certainly, Roosevelt was extremely courageous in attacking the weak, and those from whom he could expect no support or funds. A more overestimated man, nor one who more successfully befooled the people by sheer talk, has not lived in recent times.

yet, in point of actual fact, Morgan shrewdly used Roosevelt to bring about a settlement at the time when the magnates decided it was politic, and with a result the most favorable that they could hope for in the particular alarming exigency.\*

Morgan's lofty, surmounting status at this time did not arise from any misconception that he was the richest man in the United States. That prepotency John D. Rockefeller could easily claim and hold. But Morgan was so unceasingly before the public in some activity or other, and was so preëminently conspicuous in the organization of railroad combinations and industrial trusts, that, considering all aspects, he was looked upon as perhaps the most important of the magnates.

This was a popular deception, and was caused by the difference in tactics between Morgan and the Standard Oil oligarchy. The Rockefellers and their associates systematically discouraged publicity as to their business transactions; in all of their operations they cultivated the profoundest secrecy and took exceeding pains not to acquaint the people with the real extent of their possessions, nor with the methods by which they were gradually drawing into their ownership the resources of not only one nation, but of many nations. Working through auxiliaries or intermediaries they were converting much of the United States with its assets, including human labor,

\* Low says: "Here was the situation in a nutshell, which had been discussed by Mr. Morgan and Mr. Root during the five hours they spent together on the former's yacht on that Saturday when peace or war hung in the balance: To permit the strike to go on meant possibilities that no man wanted even to think of. It might mean the opening of Pandora's box. It might mean arson and riot and bloodshed in the coal region. It might mean even worse in New York city. Already the poor were clamoring for fuel, and winter had not even lightly laid its hand on the city. It might mean such a state of affairs that not the entire army could hold it in check."

into their private property, but so surreptitiously was this done that they allowed no mention of their conquests to be either formally or informally given out. The Standard Oil headquarters was an inaccessible citadel of silence.

On the other hand, Morgan seemed to glory in the ostentation of publicity. Even if he did not, it was an indispensable requisite. In his threefold capacity of banker, railroad magnate and industrial trust organizer Morgan needed a certain amount of inspired publicity for the specific purposes of his undertakings. As a banker he had to advertise his financing of projects in order to dispose of the stock; the more power he was credited with, and the more extraordinary a financier he was extolled, the easier it was to induce a multitude of investors to put their money in enterprises sponsored by him.

#### RULING 55,000 MILES OF RAILROAD.

Between Morgan, the precocious young money zealot of 1861, successfully imposing spurious rifles upon the Union army, and Morgan the incommensurable magnate of 1902, lay a long span of some forty years. For four decades he had incessantly campaigned for great wealth; thousands of Wall street aspirants, ambitious to reach the same goal, had outstrained themselves during that time only to go down in abject failure. Everywhere Morgan could see, as he advanced, the immediate wrecks upon whose misfortunes much of his fortune was built. And what were the cumulative results of his life of money-seeking? Of the properties he owned otherwise, there is no definite authentic record, but the extent of his railroad possessions can be ascertained. Moody wrote that in 1902 he was "identified with" 55,000 miles

of railroad.<sup>4</sup> "These," Moody explained, "control rights of way, coal lands, terminals, competing lines, steamship connections and the like."

Further attention need not be given to his methods of acquiring railroads. His railroad transactions, large as they were, became somewhat obscured by his still greater trust-forming operations. "Mr. Morgan," Moody further wrote, "is essentially the inspirer, the creator and the dominator of current American industrial forces." A sonorous sentence, but quite exaggerated. Long before that time, John D. Rockefeller had demonstrated the principle of the centralization of industry; Morgan neither exclusively inspired, created nor dominated; he was but one of the leading practicalists in transforming industrial conditions from the competitive to the trust form. "He is unquestionably," went on Moody, "the boldest, the ablest and most far-seeing of any of the modern 'generals of finance' who stand at the head of the modern movement for the consolidation idea in the production and distribution of wealth. This is easily proven by the fact that the enterprises in which his influence is paramount to-day are the strongest and most ably planned of any of the great combinations or 'trusts.'"<sup>5</sup>

Such eulogies as this have a mechanical ring; they have been manufactured almost automatically. That they passed unchallenged is sufficient comment upon the standards of the day, exemplified by the press as an institution for influencing the people. Even the dullest critic will observe how lacking in reservations and elucidations they are. No explanation is vouchsafed of the quality of Morgan's "greatness," nor any reason given

<sup>4</sup> "The Truth About the Trusts," 107.

<sup>5</sup> *Ibid.*, 106-107.

why he should be brevetted a "general of finance." The assumption evidently has been fixed that these high-sounding, all-inclusive, prejudicative assertions would be swallowed as truth ordained; and, remarkable as it does seem, this has been the brand of truck ladled out for consumption by the American people. Fortunately there prevails in some quarters a rebellious spirit of free inquiry, which same spirit presses us to know more of what a magnate had to do in order to be ranked as a "general of finance."

#### MORGAN'S ORGANIZATION OF THE STEEL TRUST

What was the exceptionally strong and ably-planned trust to which Moody thus so airily refers? It was the great Steel Trust. Need it be remarked that this was by no means Morgan's only such progeny? In the organization of so many trusts did he participate that the term "Morganization of Industry" ran rampant like an obsession. With these other trusts, however, it is hardly necessary to deal; as a crystalline example of Morgan's methods, the Steel Trust will doubtless suffice.

This trust, let it be proclaimed at the outset, was no paltry affair of a few hundred million dollars. It was an enterprise worthy of the application of a "great general of finance." The pen may stumble in writing it, but somehow we will contrive to get the fact into print that this trust came into being with more than a billion dollars capital. And we feel irresistibly constrained to linger upon that billion dollars. The ordinary human mind is capable of much; it can let its exuberant imagination create heavens and hells, enchantments and exorcisms, and it can stretch illusion to realms without limit; but to conceive of a billion dollars, or rather to visualize

it, is a task to be forsaken. Quite idle is it for the workers to attempt the visualization; their sole part is to produce the billions, not to see them, much less have the use of them. Contemplating that billion dollars further, we are driven to note the immense progressions occurring in the case of a "great general of finance." As a downy young man, Morgan was probably content with his profits of thousands in financing the selling of that batch of condemned rifles to the army; but then he was only a mere ambitious fledgling. Yet now, namely, in the year 1901, when he organized the Steel Trust, he had become a full-fledged "general," and, as all men know, no "general of finance" in these days is worthy of the name unless he splashes in projects of the major hundreds of millions, or billions of dollars.

In this Steel Trust (or United States Steel Corporation, as it chose to call itself) a very large number of important plants were gradually merged; plants in many parts of the United States, iron plants and steel mills and factories of tin products — every kind and quality of wares made from iron and steel were embraced in the production of the plants gathered in under this gigantic corporation. It was pleased to style itself not an owning corporation so much as a "holding company." All of the existing plants in the United States it did not succeed in taking within its fold, but of those remaining outside, many were large mills allied with it, doubtless to give a judicious appearance of competition. Others there were of an "independent" order, mills antagonistic to the trust and actively bent upon competing with it. For reasons to be stated later in this chapter the Steel Trust had no fear of most of these. There was another black prospect for the middle-class. Verily, the once infallible doctrine that "competition is

the life of trade," was sick unto death, and college professors were utterly at a loss to know how to inter the corpse decently, when decease finally came.

Perhaps curiosity may be expressed regarding the prior history of these individual steel and iron and tin plants; how they became huge, and their owners multi-millionaires, before the Steel Trust was organized. Were their owners honest men who thriftily saved their pennies, amassed capital, toiled hard, invented their own devices, and were respectable men and legitimate traders?

Not quite. They were accounted respectable enough, but their methods were not a scintilla different from those of the capitalists in all other fields, which is to say that their respectability was as well founded as that of any other capitalist group. Yet this is not the appropriate place to give a detailed account of their careers — how they and their predecessors thrived on inventions many of which they got by chicanery or theft; how they again and again and again bribed Congress for a high protective tariff; how they corrupted elections and ruled cities and partially State and National Governments; how they defrauded the Government before, during and after the Civil War; how the armor mill owners charged their own Government extortionate prices for warship armor plate which, on at least one specific occasion, was found to be worthlessly defective<sup>6</sup>; and oppressed their

<sup>6</sup> This was in 1894. According to official reports the Carnegie Steel Company was making armor plate at a cost of less than \$200 a ton, which plate is sold to the Russian government at \$249 a ton while charging the United States Government from \$520 to \$700 a ton for precisely the same armor plate. After an elaborate investigation, a Congressional Committee reported (see House Report No. 1468, Fifty-third Congress, Second Session):

"The company was hired to make the best possible armor plate, and was paid an enormous price. Resting under these

masses of workers and when those workers struck for better conditions caused them to be shot down, as happened in the Carnegie works at Homestead, Pennsylvania, in 1892. All of these factors and conditions will be fully described in a subsequent part of this work.<sup>7</sup>

#### ROCKEFELLER AND CARNEGIE FALL OUT.

Not with a rhythmic placidity did the Steel Trust come into being. An embittered contest, tinged with much personal animus, among certain of the great magnates preceded, and in some degree precipitated, its formation.

Controlling a large part of the iron ore deposits in the Mesaba region in the Northwest, Rockefeller had been aiming to buy out the Carnegie plants for the purpose of organizing a trust. To compel Carnegie to yield, he had recourse to the methods he had so often and successfully used in the oil fields. But he found Carnegie a hornet of an individual. It did Rockefeller no good to mass his interests in the ore fields, in Lake Superior transportation and in railroads against Car-

obligations the company or its servants perpetrated manifold frauds, the natural tendency of which was to palm off upon the Government an inferior armor whose inferiority might perchance appear only in the shock of battle and with incalculable damage to the country.

"The efforts of the company, and of its superintendents, Cline, Corey and Schwab, have been to satisfy your committee that the armor is up to the requirements of the contract, notwithstanding the false reports to inspectors, doctoring of specimens, plugging of plates, fraudulent retreating of test-plates and 'jockeying' of the testing-machine. The unblushing character of the frauds to which these men have been parties and the disregard for truth and honesty which they have shown in testifying before your committee render them unworthy of credence."

<sup>7</sup> "The Great Fortunes From Industries."

negie interests. Every move was checkmated by Carnegie; Rockefeller was finally compelled to lower his rates on iron ore. Finding that he could not crush out Carnegie as he had crushed small oil producers, Rockefeller changed his tactics. He advanced Henry C. Frick a million dollars as payment to Carnegie for an option to buy the Carnegie plants for \$100,000,000. Frick had been a partner of Carnegie, but between the two differences had arisen developing into a festering antagonism.

If Rockefeller assumed that his plan would go through without obstacles, he found himself enlightened before long.

The first hindrance was the unfavorable times. Assuredly, the great monarch of wealth did not intend to pay that \$100,000,000 out of his own personal resources. Such a plan, according to approved methods of finance, would be asinine. The gudgeons were to pay for it; the people who could be depended upon to buy stock issues, which stock could be manipulated so that the losses of those investors would be equal, and, much more, to the capital required. But, at that juncture, it was reckoned that the anticipated victims were in no mood or shape to exchange cash for engraved paper. A propitious occasion had to be awaited.

The delay was costly to Rockefeller. The option held by Frick expired by time limit. And that precious million dollars advanced by Rockefeller — what became of that? Carnegie declared it forfeited, and held on to it. Frick was enraged, and Rockefeller resentful. Henceforth, the animosity between Frick and Carnegie deepened, while Rockefeller contained himself till the day when he would even matters with Carnegie.

Meanwhile, a new factor had burst in to upset all of Frick's and Rockefeller's carefully nursed ambitions. This factor was J. Pierpont Morgan.

The bridge and the tube trusts, owned largely by Morgan,<sup>8</sup> had been planning to manufacture their own billets. As the Carnegie works were flourishing in the billet trade, the news was of momentous importance to Carnegie. He at once prepared to retaliate. But how could he effectively do so? What form of reprisal would be quickest and most telling? Carnegie had grown seared with experience <sup>8a</sup> in the machinations of trade; he was not the magnate to be taught how to strike at a competitor's most vital point. The word flew forth that he intended to go into the bridge and tube business. Here was an announcement for Morgan to ponder and scowl over. But another edict (it is no exaggeration to speak of the orders issued by magnates as edicts) followed in rapid order. Carnegie knew, of course, that Morgan was an extensive owner of the Pennsylvania Railroad and its properties. If a railroad were built to

<sup>8</sup> Indications of the methods of the companies in the bridge trust came out in 1910, and caused a considerable public scandal. State Senator Conger, and other witnesses testified before the New York State Senate, sitting as a trial Committee of the Whole, that a corruption fund of \$6,000 had been distributed, in 1901, among three influential members of the Assembly, to bring about the defeat of a bill considered disadvantageous to the interests of the bridge trust. J. P. Allds, President pro tem of the Senate, at the time the charges were made, was one of the accused. The Senate found him guilty. The revelations before this committee in February and March, 1910, were of such a character that it was the general opinion that they only faintly indicated the vast and continuous corrupting of legislatures by corporations of all kinds. This belief was borne out by the fact that resolutions introduced in both houses of the Legislature for a comprehensive self-investigation were at first voted down.

<sup>8a</sup> "Seared with experience." Inasmuch as a description of his career is not strictly relevant to this part of the work, we cannot halt here to recount the details of transactions, in which, many a time, he had got the better of partners, friends, inventors and competitors.

compete with the Pennsylvania system, Morgan's interests and fortune would be doubly assaulted. Carnegie allowed the information to get out that he purposed to construct his own railroads from Pittsburgh to the Great Lakes, on the west, and, on the east, to the Atlantic Ocean. He went on with the plan as though he were in dead earnest; he rushed surveying parties to map out the route.

#### THE RESULTS OF CARNEGIE'S RETALIATION.

The effect upon Morgan was galvanic. Perhaps Carnegie was bluffing in return for bluffs. But the situation was too serious for trifling. Carnegie might carry out his threats; there was the danger. Had Morgan been dealing with the United States Government he would have felt no great concern at threats that he knew he could safely ignore; but in contesting with Carnegie, he was opposed by a magnate of whose power he had reason to be grimly apprehensive. How could Carnegie be placated, or dissuaded, or prevented from carrying out his ominous plans? One heroic way there was—to buy him out, and organize a trust.

Thereupon, it is related, Morgan betook himself post haste to Carnegie. No time was lost in unessentials. The magnates went straight to the point. Morgan inquired of Carnegie for what sum he would sell his plants. With a clever expression of indifference, Carnegie sententiously replied, "Three hundred millions." A silence ensued; the magnates looked craftily at each other. Whether Morgan was aware that only a short time previously Carnegie had agreed to sell out to Frick for \$100,000,000 is not known. On his part, Carnegie believed that he had Morgan in a corner, which conviction

tion was clearly worth a raise of \$200,000,000. Perhaps Carnegie, in the style of the excellent business man, asked an exorbitant price so as to compromise on a sum larger than he really expected. Morgan's next words must have surprised him. There was no drawn-out haggling, no comment of any character. "Take it in mortgage?" asked Morgan brusquely. "Provided it covers the whole proposed combination," Carnegie replied. The trade was then and there arranged; the remainder was simply a matter of formalities and ratifications.

Carnegie was pleased with himself. Two great objects he had accomplished; he had obtained an immense purchase price, far beyond his expectations, and he was now able to carry out a yearning that he had long indulged of divesting himself of active business cares, and of playing the exclusive role of the retired and philanthropic captain of industry. Doubtless, he felt quite positive that he had outwitted even the great J. Pierpont Morgan.

But, as time passed, he found good grounds to have doubts of his astuteness.

Subsequently, after Morgan had demonstrated how vast sums could be taken in with facility in jobbery in the stock issues of the Steel Trust, Carnegie began to look back and perceive that he, not Morgan, was the outdone one—not a pleasant feeling for a man who had been self-satisfied that he was as sharp as any of the other magnates. While Carnegie was ostentatiously dispensing millions for public libraries, and preaching the doctrine that it was a disgrace to die rich, he was secretly fuming over the fact that he had not held up Morgan for a hundred million dollars more. This story was current in Wall street:

Many months later Carnegie and Morgan were on the same Atlantic liner bound for recreation in foreign fields. Coming down late to their morning coffee, there was a few minutes for reminiscence between them.

"Do you know, Mr. Morgan," said Carnegie, "I have been thinking it over, and I find I made a mistake. I should have asked you another hundred million for those Carnegie properties."

"If you had, I should have paid it," responded Morgan in his frank, unfeeling truthfulness.

And Carnegie, so the story goes, was so soured in his soul that he could take no more toast and marmalade.\*

As in the case of the railroads, and of other industrial concerns, the characteristics so typical of altered economic conditions were seen in the passing of the steel industry into the control of Morgan, Rockefeller, the Goulds and their fellow magnates.

Carnegie had grown up in the steel business; he knew its details and technique with consummate thoroughness. In addition, he had adopted the plan of making partners, in a measure, of subordinates who had proved their capacity in both the knowledge of the manufacture of steel and in methods calculated to increase profits. Neither Morgan nor Rockefeller nor Gould had any technical knowledge of how to run a steel plant; left to themselves they could not have managed a factory for a single minute. But, as the capitalist system went, they were not required to have the slightest training in running railroads, factories, steamships or mines. They could annex, or engage, men of experience to do this for them.

How were the great steel plants to be directed, now that the industry had gone out of the hands of owners who personally had known how to do that directing?

The problem was very simple, or rather, it was no problem at all. Morgan followed Carnegie's plan of putting skilled men at the directing head, and of allowing them to share somewhat in the division of stock and profits. Highly significant of the methods of capitalists was their selection of directing managers. We have seen how, when Schwab and Corey were superintendents of the Carnegie plants, a Congressional committee, in 1894, had denounced them individually, in a tame enough report, as being specifically responsible for the armor-plate frauds. Did Carnegie discontinue their services? At that very time Carnegie was thrusting himself forward publicly as a pious benefactor and a lofty citizen. Did he show any indignation at Schwab's and Corey's methods? How could he? Had they not thereby shown what valuable profit producers they were? He prized their services so much that he not only bestowed continuous marks of favor upon them, but he later elevated them to be directors and minor partners.

They were identically the men whom Morgan also wanted; from a capitalist point of view they were highly efficient. When Morgan organized the Steel Trust, to whom did he turn as his selection for executives? To Schwab and Corey; they successively occupied the position of president of the United States Steel Corporation. Indeed, Schwab expanded to be somewhat of a magnate himself, and incontrovertibly proved that he had learned proficiency in genuine magnate methods. Organizing the United States Shipbuilding Company, on his own hook, he and his associates issued false prospectuses, decoyed investors, fraudulently made a gift to themselves of \$55,000,000 in securities, and otherwise committed such fraud upon fraud, that after the com-

pany had gone into bankruptcy the receiver denounced the whole transaction as "an artistic swindle."<sup>10</sup>

#### A TRUST PERFECT IN ALL PARTS.

Apart from the recital of these frauds, there can be no gainsaying of the fact that the Steel Trust was the very acme of efficient organization for capitalist purposes. Other trusts might be well organized in the field of production, and partially that of distribution, and yet lack control of the supply of raw material. The Steel Trust controlled all three of these factors. It had its own plants. With Morgan, the Standard Oil magnates and the Goulds either dominating, or associated with, it, the railroad and steamship lines of the United States were at its disposal. It owned vast deposits of iron ore and coal, some of which had been turned over to it by Carnegie, and others of which John D. Rockefeller held. The Steel Trust, in fact, was the first trust to establish a scientific control over these

<sup>10</sup> See report of ex-United States Senator James M. Smith, receiver of the company, to the United States District Court, Newark, N. J. The report was submitted to the court on November 2, 1903. The appended paragraph is only a slight portion of the entire report:

"Who participated in this wholesale plunder? The testimony now being taken . . . will doubtless disclose the names of all the participants; but as such testimony will be submitted to this court for action, your receiver does not deem it proper to comment upon it here. Certain it is that much of this vast amount of stock and bonds was taken by persons and corporations who parted with little or no considerations in exchange therefor. Blocks of the stock went to the vendors of the constituent plants and to the purchasers of bonds, as bonus, absolutely without benefit to the company; \$20,000,000 of it admittedly went to Mr. Charles M. Schwab in addition to the agreed price for Bethlehem. Some of it went to the promoters of this artistic swindle; and when all had been provided for, what was left of the bonds, amounting to \$1,500,000, was handed back to the company, ostensibly to supply it with 'working capital.'"

three factors, so indispensable to the perfect operation of a trust. By its ownership of great iron deposits, and its practical dictatorship over transportation systems, it at once reduced nearly all of such competitors as it had to nonentities. Only one competitor, the Tennessee Coal and Iron Company, owned its own raw supply; and this competitor was later put out of the way under circumstances which will be described further on.

And here, again, enters the familiar factor of the small frauds being ousted by the great; of the property originally wrested by fraud being taken over by great magnates whose specialty (and it was a very serviceable specialty) was the extermination of lesser frauds. The original seizure of the mineral lands, particularly the iron ore mines in the Northwest, had been accomplished by force and by grossest frauds.<sup>11</sup>

It was because it controlled all of the sources of production and distribution that the Steel Trust was able to capitalize itself for more than a billion dollars. What became of this billion dollars of stock? A huge amount in common stock—no one knows just how much—Morgan awarded to himself as a reward for promoting the trust, and other quantities of the stock were issued to his associates. At the same time, Morgan bought large quantities of preferred stock. A careful appraisement by experts established the fact that only about \$300,000,000—the exact price paid to Carnegie—represented the actual assets of the trust; the remainder of the stock was “watered.” Some of this very stock was shrewdly sold to a portion of the workers in the steel plants, thus tending to destroy their resistance to the

<sup>11</sup> In previous chapters, facts have been brought out showing how the mineral lands were seized. Further facts as to the seizure of mineral lands elsewhere will be found in the chapter on the Hill fortune.

conditions under which they were compelled to work, and making them support the very system exploiting them.

#### FORTY MILLIONS STOCK PROFITS WITHIN A YEAR.

The profits made by Morgan were instantaneous and gigantic. The stock obtained by him he was able to sell at the market price of about 50. By October, 1902, Morgan and his immediate partners in the syndicate had already distributed \$40,000,000 in profits.<sup>12</sup> From whom did these stockjobbing profits come? From a host of middle class investors throughout the world. Lured on by the glowing prospectuses of the Steel Trust, and certain that the money that they put in would produce large dividends, and the stock would rise in value, they literally scrambled to pay over their money for the stock. After the process had been exhaustively worked by the manipulators, the price of common stock was gradually beat down, until, in 1904, it sank to  $8\frac{3}{4}$ . Hordes of middle class investors were ruined; the magnates had transferred their money to their own pockets. This kind of operation has been repeated several times with great success. When the little fellows parted with their stocks at low prices, the magnates would buy it back, and then by forcing declaration of dividends, and making roseate reports of the steel business, would force up the market quotations, and sell the stock back again, with resulting immense profits. By such methods Morgan and his associated clique have taken in hundreds of millions of dollars.

If it be asked from whom these hundreds of millions in stockjobbing profits directly came, the answer is simple. From the well-to-do, not merely in the United

<sup>12</sup> "The Truth About the Trusts": 172.

States, but the world over. The involuntary donors comprised the foreign aristocracy as well as the American tradesmen, the small manufacturers and the professional class. The British lords, and the European continental moneyed divisions, revealed themselves fully as eager as the native investors to relieve Morgan of his vast encumbrance of paper supply, otherwise called stock. They poured in their money, and he distributed his paper; he was swamped with orders.

Was ever such naive and trusting confidence shown as was displayed by these hosts of investors? Their simple faith in the excellencies of the magnates could not be shaken. Repeatedly had they, or other multitudes of individuals in their own classes, been inveigled into Wall street, and dexterously cheated. But these frequent experiences, instead of implanting a wisdom tempered by enduring suspicion, passed over them without leaving a trace. The merchants and petty manufacturers, in particular, who prided themselves on being so adroit in defrauding the working class, responded every time to the insinuating song of the magnates. And every time they did so they found themselves ravished of their money. No word must be uttered against their methods of swindling the workers from whom came the wealth seized from them; such protests were dangerous agitation. Let them, however, be defrauded by the Wall street magnates, and curses were not severe enough. But back the shorn would flock to Wall street, like a dog returning to the master who scourges it.

Another phenomenon must be significantly noticed. Even if considerable sections of this middle class warily kept away from stock market adventuring, their money was nevertheless used by the magnates, as though it

were the assured property of those magnates. Astonishingly paradoxical as this seems, it was and is, a bitter joke on the purblind middle class. The profits made by the small manufacturers and the retailers in swindling the workers by selling adulterated, inferior and short-weight products, were deposited in the banks. These deposits were utilized by the trust organizers to obliterate the very class owning them—a class hating the trusts with a deadly enmity. Such was the incongruous situation to which the middle class was oblivious. The great magnates controlled vastly powerful New York banks;<sup>18</sup> these institutions, in turn, held control over hundreds, if not thousands, of smaller banks throughout the country. The stock issues of the Steel Trust, as well as those of many other trusts, were sold to these banks. The trust magnates lifted out the money of the middle class, and the banks, in exchange, received the watered stock and bonds.

#### THE GREAT INSURANCE FRAUDS.

Hundreds of millions of dollars more were held by the great insurance companies as deposits and surplus from premiums paid in yearly by immense numbers of policyholders, comprising the ultra-rich, the middle class and the working class. In insurance companies, such

<sup>18</sup> The three great New York banks which, it is understood, Morgan then long controlled, were the First National, the National Bank of Commerce and the Hanover National. Their immense resources may be realized from these facts: The First National has a capital of \$10,000,000, deposits of \$113,000,000, and a surplus of \$18,600,000. The National Bank of Commerce has a capital of \$25,000,000, deposits of \$170,000,000, and a surplus of \$15,000,000. The Hanover National has a capital of \$3,000,000, deposits of \$82,000,000, and a surplus of \$10,000,000. Since then, as we shall see, Morgan has extended his control over a vast number of other banks, virtually forming a Money Trust.

as the New York, the Equitable and the Mutual, the working class was little represented; the workingmen could not afford to pay the large premiums demanded. Forced to take out policies, on a weekly installment payment, in the industrial insurance companies, they were swindled to an even greater extent than were the policyholders of the "old-line" companies. Their money, too, was used in providing trusts with adequate enough funds with which to bribe legislatures for franchises and other laws, and to obtain extensive equipment. The Public Service Corporation, which, for example, owns the public utility plants and systems (except the railroads) of the entire State of New Jersey, was financed with the money advanced by one of these large industrial insurance corporations.

Viewing the matter rationally, however, it will be at once seen that whatever the enormous accompanying frauds, the necessities of industrial and social progress demanded two interrelated lines of action. The first was the superseding of the competitive, by the trust, system. Since trusts were the next inevitable stage, the immense funds needed for their organization and elaboration had to come from somewhere. Individually, the magnates lacked sufficient cash. Consequently, they were forced to take it wherever they could find it, irrespective of the nature of the methods used.

In the wielding of the colossal funds of the New York Life Insurance Company, Morgan was a chief among the ruling factors, while also screened behind figure-heads, he was active in the affairs of the Equitable Life Assurance Society.<sup>14</sup> Evidences of his power, exercised

<sup>14</sup> Morgan's hold in the New York Life Insurance Company came through George W. Perkins, the vice-president of that company. Finally, in 1902, Perkins became a member of the firm of J. P. Morgan and Company, continuing, at the same

through indirection, were repeatedly brought out in the remarkable, although fundamentally futile investigation, made by a New York legislative committee in 1905. The insurance companies had a satiety of cash; Morgan, Harriman and other magnates had the stock issues. Inasmuch as obviously that stock was not issued for æsthetic exhibitions, the important and immediate consideration was to convert it into revenue. By collusion with the officials of the insurance companies, huge quantities of bonds and stocks were sold to the insurance companies.<sup>15</sup> Largely with this middle class money, the magnates were enabled to finance their great railroad and trust projects. Other portions of the stock issues were sold directly to the middle class, and were then manipulated so as to grind out that class still further.

#### QUARRELING OVER THE SPOILS.

For a long time this looting of the insurance companies went on unhindered, and without attracting public notice. The causes of this immunity from official action and exposure were not revealed until 1905. In that year the accustomed capitalistic development came about. A quarrel, at first mere private mutterings, then growing into an obstreperous conflict, set in among groups of magnates. And what was the provocation? Was it one of personal hostility? Not at all. The cause arose from dissensions as to the division of the spoils in the

time, as an officer of the New York Life Insurance Company. Perkins's methods may be judged by the following incidental fact: He took out policies for \$60,000 on his life, and received agents' commissions on his own insurance. Report of the [New York] Legislative Insurance Committee, 1906, x:85.

<sup>15</sup> The Equitable, for instance, owned \$162,364,034 of railroad and traction company bonds, the Mutual about the same amount in railroad and miscellaneous bonds, and the New York a similarly large amount.

Equitable Life Assurance Society. Magnate arrayed himself against magnate, and group opposed group. The clearer it became that the fight for control of the stupendous revenues could not be compromised, the more malignant the magnates became. The stage was soon reached when ugly charges of fraud, graft and corruption were allowed to get into the public press. Here was a spectacle for the gods. Not from any "labor agitator," nor from any "irresponsible newspaper" did these charges come; nay, they came from some of the lordliest magnates in the land, from men of the most "unimpeachable respectability." Now, here they were vulgarly accusing one another of being liars, frauds and all-round knaves.

That the matter made a loud sensation can well be understood; newspaper writers diligently applied themselves to reporting the great event. Quarrels among magnates were not uncommon, but when a whole array of the nation's oligarchy of wealth pushed their row into the open, and began bedamning one another, it was a rare opportunity for truths to come out. None but the magnates themselves could open the doors of their holy of holies and reveal the mysteries within. Praises be to the glorious occasion, they were now doing this very thing.

But when the holy of holies was subjected to scrutiny, it was found to be a cesspool from which long pent-up noxious exhalations burst forth, almost threatening to suffocate a nation that had been taught to reverence the aforesaid holy places. The quarrel became so fierce that a swelling popular demand sprang up for a legislative committee to do some exhaustive and salubrious probing. The demand, at least, had every appearance of being a spontaneous popular one; but it can be rea-

sonably surmised that after trying every other means of ousting the group of magnates in power, the opposition party cleverly investigated the popular indignation in order to compel an investigation, and discredit the clique in control. Subsequent developments proved that Harriman had long been attempting to gain exclusive control of the massed funds of the Equitable Life Assurance Society. In addition, his own testimony attested the fact that Governor Odell of New York was his creature, and that the very Legislature which ordered the investigation was obedient to his orders.

From the first sessions of that investigating committee to the last, the story unrolled was one of such appalling fraud and corruption that the very enormity of it finally deprived it of effect. One after another, the magnates were haled forth to the light; and when they retired they, the "great captains of industry," the supremely respectable products of society, the fine moralists of the nation, the supporters and endowers of charities and churches, the rulers of politics, were revealed as perjurers, bribers and thieves. If magnates desire to keep up the myth of "sterling honesty," benevolence and patriotism, they must learn not to quarrel among themselves. Otherwise, they will tell on one another, which is not politic. Even more seriously, they will undermine the stanchions and "pillars of society," one of which, in the United States, is the popular belief that the people vote their rulers in and out of office, and shape the course of legislation.

#### THE EXTENSIVE RAMIFICATIONS OF CORRUPTION.

So long as the people have the delusion, and the capitalists have the legislative votes, what good bodes it

to the magnates to have the secret come out? Over and over again was that secret disclosed in past investigations, but without instructive results. Yet, behold! the people once more have the opportunity of getting an insight into what goes on behind the scenes when the Legislative Investigating Committee reports in 1906:

The testimony taken by the committee makes it clear that the large insurance companies systematically attempted (sic) to control legislation in this [New York] and other States, which could affect their interests directly or indirectly. The three companies divided the country, outside of New York and a few other States, so as to avoid a waste of effort, each looking after its chosen district and bearing its appropriate part of the total expenses.<sup>16</sup>

Excellent! even bribery, like industry, becomes systematized and modernized. In the process, delicate externals are preserved. To ledger bribery funds as corruption money is a gross shock to fastidious taste, and is inexcusably unbusinesslike. Hence, so the committee reported, bribery expenditures were classified as "legal expenses." The committee described them as extraordinarily large. The Mutual, in 1904, disbursed \$364,254.95; the Equitable, \$172,698.42, and the New York, with Morgan's partner, Perkins, practically in command, \$204,019.25.<sup>17</sup> This, according to the simple rules of arithmetic, made a total of more than three-quarters of a million dollars spent in one year in the corrupting of legislatures, administrative officials and certain newspaper writers.<sup>18</sup> These "legal expenses," the committee redundantly wrote, were "far in excess

<sup>16</sup> Report of the [New York] Legislative Insurance Committee, 1906, x:23.

<sup>17</sup> *Ibid.*, 16.

<sup>18</sup> The testimony showed that many newspaper writers had received large sums for the suppression of articles revealing the methods of these companies.

of the amounts required for legitimate purposes."<sup>19</sup>

For what were these corruption funds employed? To get laws under which great frauds could be carried on, and to prevent the passage of laws interfering with the graft. And who were the immediate distributers of the funds? Trained, circumspect lobbyists, thoroughly experienced in the business of knowing who, when and where to bribe. They were never stinted for money. Andrew C. Fields, long engaged by the Mutual Life Insurance Company to manipulate legislation at Albany, held forth in a sumptuously furnished house there. This headquarters was jocosely styled the "House of Mirth!" The rent and other expenses were charged to "legal expenses." The Mutual thus expended more than \$2,000,000 in "legal expenses" from 1898 to 1904.<sup>20</sup> And what were those of the New York Life Insurance Company? From 1895 to 1904, the total payments to Andrew Hamilton, its principal lobbyist, amounted to \$1,312,197.16, all of which sum was soberly entered as "legal expenses."<sup>21</sup> J. P. Morgan and Company made advances of money to Hamilton.<sup>22</sup>

But the corruption neither began nor ended with the buying of legislative votes or of administrative connivance. Over and above the politicians in office were the bosses in control of the machinery of both the Republican and the Democratic parties. Those party machines could command the votes; and the orders of the men at

<sup>19</sup> Report of the [New York] Legislative Insurance Committee, 1906, x: 16.

<sup>20</sup> *Ibid.*, 16.

<sup>21</sup> *Ibid.*, 50.

<sup>22</sup> *Ibid.*, 49. For instance, J. P. Morgan and Company, in October, 1902, advanced \$59,310.79 to Hamilton. This sum was deducted from the profits of the New York Life Insurance Company. Hamilton was not required to make any accounting.

the head called for submission by the underling politicians. Refusal brought discipline and retirement. By controlling the secret workings of the party organizations, the magnates virtually controlled the platforms of those parties, their nominees, and the general course of the men elected to office.

For one more proof of this, another dip into the report of that celebrated insurance investigating committee of 1905 will suffice. "The insurance companies," it reported, "regularly contributed large sums to the campaign funds of both the Republican and the Democratic parties." This was no exceptional act, however; it was the conventional order of the day; all of the great corporations did likewise. Had not Jay Gould, thirty-odd years before, explained the method? And had not other capitalists long antecedent to Jay Gould shown how efficacious it was? A present of nearly \$50,000 was contributed in 1894 by the New York Life Insurance Company to the campaign fund of the Republican National Committee,<sup>23</sup> and similar amounts in 1896 and in 1900 for the same purpose.<sup>24</sup> All of the large insurance companies gave contributions, not only for national political campaigns, but also for those in the States.<sup>25</sup> It was found impossible to trace all of the directions of this continuous corruption. "Enormous sums," the committee stated, "have been expended in a surreptitious manner."

The immense sums thus spent in political corruption were stolen from the proceeds of the policyholders.

<sup>23</sup> Report of the [New York] Legislative Insurance Committee, 1906, x: 62.

<sup>24</sup> *Ibid.*

<sup>25</sup> *Ibid.*, 398. The Equitable, for example, gave \$50,000 in 1904, to the Republican National Committee, and had also, for many years, been giving \$30,000 annually to the New York State Republican Committee. (p. 10.)

With this stolen money, mounting into millions of dollars, the magnates bought their way into every State legislature in the Union ; they purchased a way for themselves or for their allies into the United States Senate ; and they carried their demands in both the Republican and the Democratic parties. An arraignment more destructive to the existing arrangement of society could not be found than was contained in the facts (and they were by no means, all of the facts) reported by that committee. The substantial conclusion was, although not set forth in so many plain words, that the administrative officials, the legislatures, Congress, the courts and the old political parties were controlled and dominated by groups of unparalleled frauds and pirates. For the sums diverted to insure this political control were only a tithe of the aggregate stupendous thefts. Following close upon the investigation came suits against the "high financiers" for the restitution of more than \$10,000,-000, and these suits were but indications of still vaster sums fraudulently taken. The suits were compromised.

#### DARK DAYS FOR RESPECTABILITY.

It was a period of travail for respectability ; much explaining had to be done, which (in such a case) is always a confession. The directors or swayers of those insurance companies comprised some of the most super-eminent magnates and exalted philanthropists in the United States. Elegant society suffered no shock at the revelations, for it was built and sustained, every part and woof of it, by theft, fraud, bribery and exploitation.

But the apologists and retainers, whose vocation it was to strew praise in the path of the money monarchs,

were egregiously put out of face. What could they say when such of their heroes as George J. Gould, Alfred G. Vanderbilt, John Jacob Astor, August Belmont, Jacob H. Schiff,<sup>26</sup> Henry C. Frick, D. O. Mills, and many others were being shown up either as participants or as responsible heads? More galling still was the besmirching of their great idols, E. H. Harriman, and above all, the devout and philanthropic J. Pierpont Morgan.<sup>27</sup> All of these money conquerors had been interminably glorified; nothing had been too extravagant to say of them; and now they could be seen twisting and squirming in the uncomfortable act "of being caught."

Good repute may be, as the poets and philosophers say, a priceless possession. But these magnates did not mind the temporary hurt. For temporary it surely was; a little time would pass, and then the newspapers, magazines, college presidents and clergy, largely owned or subsidized by the magnates, would resume their interrupted chorus of praise, and all would be well again. A bit of the plunder thrown out to universities and churches would add to the magical effect.

Hence, it was not any loss of reputation that the magnates and their satraps feared. The one and only dis-

<sup>26</sup> The Equitable Life Assurance Society "loaned immense sums" to Kuhn, Loeb and Company, of which Schiff was a leading member. (*Ibid.*, 118.) These funds, in large part, were turned over to Harriman for use in his railroad gathering and centralizing projects. Schiff passed in public as one of the benevolent philanthropists of the time.

<sup>27</sup> The extent of Morgan's utilization of insurance money was shown by the legislative investigating committee. "The evidence is," it reported, "that while Mr. Perkins has been a member of J. P. Morgan and Company, the New York Life has purchased from it securities of the par value of \$39,286,075 for the price of \$38,804,981.51. (Report of the [New York] Legislative Insurance Committee, 1906:81). Superficially, the report suggests that the New York Life Insurance Company thus obtained "a bargain" in the purchase of these securities. In reality, much of the securities comprised "watered" stocks.

quieting prospect was that of being shunted away to prisons. Throughout the United States the insurance disclosures — the outcropping facts as to the vast, long-continuing corruptions and frauds — had called forth a frenzied demand at first that the guilty be rushed to trial and imprisoned.

But that demand, if carried out, would have entailed a unique and unprecedented situation. Should all of the guilty be jailed, or even a number of them, the nation would have been deprived of many of its foremost magnates, its greatest philanthropists, its most exemplary patriots. How could society have survived such a loss? According to orthodox teachings, these men were imperative to the proper administration, and the well-being, of the whole social and industrial system. Incarcerate the great magnates, philanthropists and patriots, even though they were also the greatest plunderers? The thought was impossible.

No fear of prison, however, need have been entertained by the implicated. Had not many an investigation been held before, decade after decade, almost year after year, sometimes several investigations in a single year? Had any of the rich defrauders disclosed in those investigations ever gone to prison? What ground was there for supposing that this investigation would result any differently? In a society ruled by money, what are courts for but to be used as a minatory instrument for enforcing the law, made by the rich, against the propertyless? What are judges for except to construe that law as the magnates who put them on the bench demand that it be construed?<sup>28</sup>

<sup>28</sup> It is quite needless to reiterate here facts (already brought out) regarding the methods by which appointments and elections to the bench were made by the great property interests. Later

Not the law so much as the interpretation is what essentially counts.

#### THE MAGNATES ESCAPE THE LAW.

How the law was interpreted was soon seen. Under the pressure of public opinion, the District Attorney of New York County, one William Travers Jerome (long renowned as a "reformer") finally caused the Grand Jury to take action in proceeding against a few of the satraps and the figureheads. But, in the case of Perkins, for instance, it was decided that if he had committed grand larceny, it had been done without *criminal intent*. The thousands of poor offenders hurried off to prison were obviously afflicted with an overabundance of this same *criminal intent*. Yet for a rich and powerful man to commit any fraud with *criminal intent* was a principal unknown to practical jurisprudence. The farce dragged out a while; not one of the participants of great wealth was even incommoded by the formality of a trial.<sup>29</sup>

And what was the outcome of that extraordinary investigation? Again was seen the operation of that principle so often brought out in these chapters; that every "reform wave" of a capitalist order of society is used by the great capitalists to aggrandize their wealth and power. Taking advantage of the popular discredit of the large insurance companies, and making fine assertions of the reforms that he intended to bring about,

on, a full elucidation of this subject will be given, as also a description of the criminal law as applied to the poor.

<sup>29</sup> The facts thus generalized are so notorious that it is hardly necessary to specify at length. Although he was much denounced, Jerome did not deviate from the uniform practice (as noted so often throughout this work) of enforcing the laws vigorously against the poor, while allowing the rich frauds and thieves to go scot free. At one time, a "popular hero," Jerome went out of office thoroughly discredited in public opinion.

Thomas F. Ryan secured control of the Equitable Life Assurance Society, completely frustrating Harriman's efforts to the same end. Ryan's career, and the facts as to how he obtained his immense wealth, were so generally known, that his appearance in the role of a "reformer" was the signal for an instantaneous outburst of public sarcasm which Ryan did not at all mind, seeing that he had carried his assault.<sup>20</sup>

Enough, however, of the methods by which these vast insurance funds were manipulated for politico-financial ends. The sensation caused by the revelations was as profound as the reaction that followed. For a brief period the mass were privileged to have a look behind the scenes, get wrought up at what they saw, and then the curtains were drawn again and the old comedy was resumed. The intense popular excitement flattened out into the sheerest lassitude.

What noteworthy changes resulted from all that protracted boring, ten solid volumes of it? None. Some lawyer folk grasped political advancement out of it, others enriched themselves from a trail of litigation, a

<sup>20</sup> In his speech in the United States Senate on March 17, 1907, Senator La Follette thus referred to Ryan:

"The Metropolitan Interborough Traction Company cleaned up, at the lowest estimate, \$100,000,000 by methods which should have committed many of the participants to the penitentiary. The public and the stockholders were robbed alike. That dividends were paid with borrowed money purely to stock job the public is now known to a certainty. Stock was thus ballooned to \$200 per share, which goes begging now at \$35. The insiders robbed the company on construction of upwards of \$40,000,000. Investigation has disclosed that \$1,000,000 was spent as a 'yellow-dog fund' for corrupting public officials. In 1886 Thomas F. Ryan was a poor man. In 1905 Henry D. McDonough, his official representative, estimated Ryan's fortune at fifty millions. The foundation of all his wealth and power was the Metropolitan Street Railway." "Centralization and Community Control of Industry," etc. (Government Doc.), 24. Ryan's career will be fully described in that part of this work comprising "Great Fortunes From Public Franchises."

few minor laws were passed, and one set of capitalists was deposed to make place for another. And that was the finis of this great investigation which was to have brought such "beneficial reforms."

One of the most remarkable, and at the same time most comical, features of American political life in the nineteenth and twentieth centuries was the frequency of these official investigations. Survey the archives and you will be bewildered by their number and continuity, extant in the form of printed testimony and reports.

These were not investigations made by a hostile officialdom, but by governing authorities, either representing the very capitalistic interests investigated, or favorable to them. The numerous investigations may, therefore, be accepted as those of capitalist society disclosing itself. Everyone of them reveals the same story of fraud, corruption and theft, from which not a single line of business was exempt. The stupendous extent of the incessant and deliberate lying carried on by capitalist expositors may at once be seen by comparing their fulsome accounts of capitalists and of the capitalistic system with the facts perpetuated in the reports of the capitalists' own Government. Not one of those investigations carried with it any real salutary benefits for the people; after every such inquisition the mass were plundered and despoiled as effectively as before — almost invariably more so. Apparently the only inherent virtue of those investigations seems to have been that of supplying this present author with facts — a not inconsiderable virtue, it may be appreciatively added.<sup>31</sup>

<sup>31</sup> Wherefore, with this knowledge, wonder can be expressed that the "insurance iniquities" (as they were styled) were not proportionately viewed. In actuality, great as they were, they were but the merest fragments of a colossal network of fraud, corruption and graft, covering every department, branch and kind of business and old-party politics.

But what of those virtuous middle-class investors who, when tricked and defrauded by the magnates, plaintively put themselves on exhibition as outraged and helpless victims of a crew of unscrupulous financiers? How, for example, did the many investors in Steel Trust stock regard the great Morgan after their disillusioning and spoliation? They broke out in passionate imprecations. Throughout the country you met them everywhere bewailing their losses; some of their thousands, others of their tens of thousands, and still others of their hundreds of thousands of dollars. In many another Wall street onslaught, the losers could not specifically blame Morgan; but in the Steel Trust stock-rigging he was so palpably the principal moving spirit, that necessarily this bitterness was directed at him. To the point of nausea the charge was repeated that fraud had brought about the stripping or ruin of those innocent, confiding investors;<sup>22</sup> fraud did it all, fraud explained the whole process.

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Delicious innocence! Not an individual was there among those self-commiserating investors who would not have been elated to have profited in the stock market at the expense of other investors. Had such been the outcome, the transaction would have been highly legitimate and just. The crime consisted in the magnates exclusively pocketing the booty. This at once transformed the operation into one of betrayal, injustice, fraud and oppression — terms springing spontaneously from the middle class whenever its pocket is drained. Then came

<sup>22</sup> Many of these investors were not, of course, despoiled of their entire fortune. Thus, a small manufacturer might invest \$25,000 of his fortune in Steel Trust stock, and lose a great part of the investment in selling out at a very much lower price than that at which he had bought it. As the market price kept descending he would conclude to sell out before his losses would be greater. The "margin" investors suffered much worse.

that old familiarly dolorous plaint of its grievances. And would the terrors of law never descend upon the supersubtle corporate greed that was swindling and devouring the virtuous middle class, "the backbone of the country"?

#### THE SOURCE OF PROFITS.

Agitated over their own misfortunes and expropriation, these investors excoriated Morgan and the other magnates. And their actuating reason was what? That of not being allowed to have a hand in the profits. Who has not heard pigs squeal when a hog usurps the trough! And what, further, were the basic conditions from which these investors eagerly strained for profits, either in stock gambling or in dividends?

The value of the stock depended at bottom upon the trade profits of the business. Those profits came from the labor in the mills and the exploitation of the manufactured product, the price of which exploitation was indirectly taxed upon the working class wherever steel was sold or used. Were the petty investors, so clamorous for their own security and comfort, uneasy at the conditions under which masses of men and boys worked in the iron and coal mines and in the steel manufacturing plants? Did they experience any qualms at the long hours and low pay, and the squalid, often revolting, life to which those workers were forced? Did the bestial degradation and frightful destitution so often encountered in steel-mill quarters disturb their thoughts? Or were they impressed by the ghastly casualties in the mills, or the diseases rife in the workingmen's quarters, causing an undiminished slaughter of men, women and children? Did the investors, whose understanding of in-

justice was so sensitively acute when they were robbed or in distress, see any injustice in such conditions?

In this exploitation they saw nothing by a "righteous" system of industry from which they eagerly sought profit. They were not ignorant of the existence of these conditions; it was with a knowledge, not always full, but some realization, nevertheless, of them, that they sophisticatedly bought Steel Trust stock to share in the profits. When an exposure was made, in 1908, of some of these conditions, not more than a handful of stockholders protested against the horrors; exceptions among their class to which we gladly draw attention. In its long duel with the magnates, the middle class ever and always insisted that its grievances be heard and respectfully treated. Yet, let the workers make the slightest move for redress, and that class, with stony rigidity, would demand their repression as "disturbers of business," if for no other reason.

To describe those conditions at length would be an inappropriate anticipation of another part of this work to which the description is more germane. Some glimpses, however, will be to the point. Nor will the facts be drawn from working-class spokesmen and writers. Do not the conventions of the day condemn these as unworthy of credence and citation? Observe with what immense respect legislatures, Congress, the courts, editors and literary reviewers treat the trashiest utterances of capitalists, and swear by their value and authenticity. But working-class memorials, protests and statements are obviously the productions of "rabid agitators"; they "chronically exaggerate" and are "partial and partisan." Since capitalists (and their retinue of scribes) alone possess the high virtue of complete veracity, citations from such sources will perhaps carry weight.

What is this extraordinary document we hold in our hand? It is a report entitled "The Pittsburg Survey," the same being an exhaustive investigation of the conditions of the working class of Pittsburg. Scrutinizing further, we find that this investigation was carried on by means of funds contributed by "The Russell Sage Endowment."<sup>22</sup> That fact enhances its prestige for citation purposes. What is this further fact we note on the bottom of the cover? That the report has been published in a magazine conducted by the Charity Organization Society of New York City, under which title appears — what? The name of J. Pierpont Morgan, as treasurer of that society. Now we are invulnerably on safe footing. To a report issued under such exalted auspices, who would be so reckless as to impute inaccuracy or impartiality? More especially so, inasmuch as this report has been generally commended for its accuracy — an accuracy, it may be added, toned with an extremely conservative treatment.

#### THE CONDITION OF THE STEEL WORKERS.

On, then, with the quoting. "The United States Steel Corporation," the report said,

owns property on the South Side of Pittsburg just beyond the Point Bridge. Here is located the old Painter's Mill, which is one of the plants of the Carnegie Steel Company, which in turn is one of the constituent companies of the United States Steel Corporation; and here, also, stands what remains of

<sup>22</sup> "The Russell Sage Endowment"—a fund amounting to many millions of dollars, given by Sage's widow for (among other purposes) the purpose of investigating the conditions producing poverty. Part of the money robbed by Sage in previous generations is thus used to find out why so many millions of the present generation are in destitution. What a grotesque sequence!

Painter's Row, where the company has housed certain of its employés, mostly immigrants. When the Carnegie Steel Company took over Painter's Mill, it renovated the plant so as to turn out the sort and quantity of output which the Carnegie name stands for. When it took over Painter's Row, it did nothing. When, a little over a year ago, and several years after the purchase of the property, I made a detailed investigation of the place, I found half a thousand people living there under conditions that were unbelievable — back-to-back houses with no through ventilation; cellar kitchens; dark, unsanitary, ill-ventilated, over-crowded sleeping rooms, no drinking water supply on the premises; and a dearth of sanitary accommodations that was shameful.<sup>24</sup>

The writer hastens to add:

The story of Painter's Row should be considered in its bearings. The United States Steel Corporation is building a remarkable new town at Gary, Indiana; its subsidiary companies have promoted house building along original lines, notably at Vandergrift, Ambridge and Lorain, and the Carnegie Steel Company has fair, low-rental houses at Munhall and elsewhere. On the other hand, other Pittsburg corporations own company houses which have been equally as bad as Painter's Row; and a similar story could be written of a shack at one time owned by one of the foremost Protestant churches of Pittsburg, and razed to the ground only because the headworker of Kingsley House had the courage to publish its picture and the name of the owner.

Painter's Row has been improved, it is reported, since the publication of the report; the Steel Trust officials were driven to it by the resulting publicity. But Painter's Row is only a typical incident in a vast accumulation of poverty and misery, to be met with everywhere in the steel mill towns. That qualifying note regarding the erection of fine new houses for the workers in Gary

<sup>24</sup> "The Pittsburg Survey," ii: 899.

and other Steel Trust towns has an altruistic touch; very melodiously and enthusiastically it rolls along. Yet we have seen, in the case of the town of Pullman, how these "model towns" work out; how the workers are reduced to a state of serfdom, exploited at every turn in the mills and out; and such efficiency as comes from fairly decent living quarters simply redounds, as a "good investment," to the profit of the mill owners. Of the conditions noted further in Pittsburg, one more extract from the voluminous report (which might well be termed a Chamber of Horrors) will give an additional insight:

... It is a common opinion in the district that some employers of labor give the Slavs and Italians preference because of their docility, their habit of silent submission, their amenability to discipline, and their willingness to work long hours and overtime without a murmur. Foreigners as a rule earn the lowest wages and work the full stint of hours. I found them in the machine shops working sixty hours a week; at the blast furnaces working twelve hours a day for seven days in the week. The common laborer in and around the mills works seventy-two hours a week. The unit of wages is an hour rate for day labor and a Slav is willing to take the longer hours (twelve hours a day for men who work fourteen and sixteen in the fatherland) with extra work on Sundays, especially in connection with clearing the yards and repairing. Possibly sixty to seventy per cent. of the laborers in the mills come out Sundays and the mechanics and other laborers on occasions work thirty-six hours in order that the plant may start on time. In one mill I found Russians (Greek Orthodox) in favor for the reason that they gladly worked on Sundays.

Many work in intense heat, the din of machinery and the noise of escaping steam. The congested condition of most of the plants in Pittsburg adds to the physical discomforts for an out-of-doors people; while their ignorance of the language and of modern machinery increases the risk. How many of the Slavs, Lithuanians and Italians are injured in Pittsburg in one year is not known. No reliable statistics are compiled. In their

absence people guess, and the mischief wrought by contradictory and biased statements is met on all hands. When I mentioned a plant that had a bad reputation to a priest, he said, "Oh, that is the slaughter-house; they kill them there every day." I quote him not for his accuracy, but to show how the rumors circulate and are real to the people themselves. It is undoubtedly true, that, exaggerated though the reports may be, the waste in life and limb is great, and if it all fell upon the native born a cry would long since have gone up which would have stayed the slaughter.<sup>35</sup>

These are but the most cursory views of a few of the prevailing conditions. All of the bond and stock holders, large and small,<sup>36</sup> great magnates and little parasites, not merely have acquiesced in these conditions, but have insisted upon their continuance, upon the principle (so often referred to in the course of this work) that the lower the wages and longer the hours of work, the seductively greater the dividend prospects. Splendid mansions, as capacious and ornamental as palaces, arise upon the tense labor, the suffering and the mortality of those masses of workers. Carnegie, pompously spreading his philanthropy, draws his income from the very life blood of those workers and their families and children,<sup>37</sup> and Morgan, piously dispensing charity, officiating at religious meetings, and posing as the incarnation of princely benevolence, allows no such impractical considerations as

<sup>35</sup> "The Pittsburg Survey," i: 537 and 539. The Carnegie Steel Company began several decades ago the systematic hiring of immigrant workers. The average pay of these workers is \$1.60 a day.

<sup>36</sup> But the few exceptions noted previously.

<sup>37</sup> "One-third of all who die in Pittsburg, die without having anything to say about it. That is, they die under five years of age. One-fourth of all who die, die without having anything to say about anything. That is, they die under one year of age. Most of these deaths are preventable, being the outcome of conditions which, humanly speaking, have no right to exist." This slaughter is greatly caused by impure milk and bad housing conditions.—"The Pittsburg Survey," ii: 943.

pity or sentiment to make life even a moiety more tolerable in the roaring hells from which are derived an average of \$145,000,000 net profits a year.<sup>88</sup>

<sup>88</sup> The American Federation of Labor, at its annual meeting at Toronto, in November, 1909, declared that the Steel Trust was actively bent upon destroying labor unions, and that it was the foremost aggressor in this move. The object is to reduce the workers to a still greater condition of servitude.

The stock lists of the United Steel Corporation which were opened for inspection at the annual meeting of the stockholders, in Hoboken, N. J., on April 18, 1910, showed that the name of J. P. Morgan and Company, for the firm and as holders for others, appeared on the lists for large amounts of stock. Morgan's London house, formerly known as J. S. Morgan and Company, but at present Morgan, Grenfell and Company, also held, it was revealed, large amounts of stock. The holdings in the name of Luke H. Cutler, amounting to 17,395 shares, were generally considered to be stock owned by John D. Rockefeller. Of the foreign stockholders, the "Dutch Syndicate" was shown to be the largest, its holdings reaching 216,870 shares of common stock. The Rothschilds were also disclosed as large stockholders. A considerable number of conspicuous American individual capitalists and banking firms were entered on the books as stockholders in varying degrees of ownership, large and small.

## CHAPTER XII

### MORGAN AS "THE SAVIOR OF THE NATION"

All previous panegyrics lavished upon Morgan became stale and inadequate compared to the apotheosis of him during the panic of 1907. What climax of earthly splendor does Morgan reach? He becomes the "Savior of the Nation."

Around their genesis, methods and characters, the magnates weave romantic yarns. They supply the inspiration; a host of writers and orators, trained to transfer that romancing into catchwords and phrases, carry it to the people and popularize it until it becomes an almost adamantine tradition. Always it is the same species of romance; the toil, the thrift, the integrity, the wonderful ability by which the magnates reaped their fortunes; their heroism in time of war, their saving philanthropy in all great crises.

The audacity of these "literary" puffers is as great as the imposture of the magnates whom they cover with adulation. In the very commission of vast frauds and thefts, the magnates will pose as public-spirited, patriotic men. Their puffers hasten to paint them likewise. There is no judicious waiting until time has receded, and the actual facts are more or less forgotten. The very enormities of the magnates are at once transformed into acts of the greatest purity, and the people are called upon to applaud. In every conceivable manner the press, or at

least a considerable section of it, is manipulated to counteract the effect of disclosures.

#### A CHARACTERISTIC EULOGY OF MORGAN.

Shortly after the panic of 1907 had set in, an article (and it was one of many such productions) entitled "Morgan the Magnificent" was published in a "popular magazine."<sup>1</sup> Its bombastic style, if nothing else, must provoke a wondering interest, yet it was strictly in accord with the quality of most of the matter published in books and magazines. This trash was called "popular" not because the people wanted it, but because to a great extent many publishers considered it "safe." It did not antagonize the vested interests of wealth. The article began with this lurid introduction:

There were scenes in the saving of Wall street by John Pierpont Morgan that never can be written; things said and done that cannot and should not even be remembered, even in those days of excitement, horror and confusion; heroism, crimes, blunders, treacheries and martyrdoms that spanned the whole capacity of man for glory or shame; for, until the continent came, half-crying, half-cursing out of the trembling madness that threatened to bring down the banking system of the country into ruins, smash the credit of the nation and smirch its name, men were in a nameless bewilderment of fear beyond words to express, as in the presence of some impending and irresistible convulsion of nature the boldest and keenest become craven and stupid.

Plain Mr. Morgan, fresh from the dronings of a great Episcopal church convention at Richmond, was suddenly aroused by the peril of the financial situation to a demonstration of courage, strength and personal masterfulness that brought order and confidence out of chaos and despair.

And there is a little history to compare to the sight of this stout, secretive American banker of seventy years withdrawing

<sup>1</sup> "Pearson's Magazine," issue of February, 1908.

from the passionless company of bishops and ministers intent on religious ideals, to take command of the fierce, clashing money forces of Wall street, gone crazy out of sheer fright—to become the protagonist and hero of the most cynical, suspicious, treacherous, cruel, arrogant and cowardly human elements in the world.

It might well be imagined that Morgan, the "connoisseur of art," the "lover of literature," the great *arbiter elegantiarum*, would have sent for the author of this perpetration and caused him to be the bastinadoed on the spot. Evidently—in the absence of proof to the contrary—Morgan was pleased with the confection. It would not be worth notice here were it not for the fact that the point of it—that Morgan was the "Savior of the Nation"—was gravely and repeatedly pressed forward by many other writers and publications.

In scrutinizing Morgan's career, one prodigious virtue is encountered. It is that of consistency. The quality of his patriotism and heroism never changed from the time of his introduction into business. That rifle sale at the outbreak of the Civil War was the first exhibition of his intense patriotism. In 1894 his patriotic nature was again displayed consistently when he and his clique squeezed a profit of \$18,000,000 or more from the Government in a time of need. In the panic of 1907 his never-failing patriotism was even more prominently shown.

While the effusions of the "popular writers" were wending the rounds of the country, a recalcitrant United States Senator was boring the august Senate of the United States with a long, tiresome speech. The bulk of the august Senate did not care to hear what this Senator, one La Follette, of Wisconsin, had to say, but were compelled to by the rules. The Senate of the United

States was most sensitively jealous of its prestige and dignity. Most of its members were multimillionaires. La Follette lacked that highly important qualification. Still more, he was painfully deficient in caste in another respect. He had not bought his way into the Senate of the United States, thereby outraging one of its most sacred canons. Hence he could give no real test of standing or any guarantee of wise, conservative statesmanship.

But the majority of his colleagues had good reason to be impatient of La Follette's speech. His was a voice from the past. They represented the newer order, that of centralized industry, and a Government run directly by the magnates themselves. He was a relic of the old creed, that of the age of competition in industry.

For four long days, on March 17, 19, 24 and 29, 1908, he delivered his lugubrious wail. "In their strife for more money, more power — more power, more money," he explained in describing the great magnates, "there is no time for thought, for reflection. Government, society and the individual are swallowed up in the struggle for greater control." Thus he stumbled through mazes of facts the purport and interpretation of which he did not understand. Neither did he comprehend the fundamental fact that commercial upheavals are not the work of individuals, but of the whole capitalist system; that certain powerful individuals or interests could accelerate or retard them, but could not be held responsible for their causation. According to him, a crowd of conspirators, headed by the Standard Oil Company and Morgan had deliberately brought on the panic; he fulminated against them and denounced them as arch criminals.

Amid his accusations, lamentations and platitudes,

Senator La Follette embodied certain facts of real historic value — facts confirmed by the records of what actually took place, and familiar to all close observers of events during the panic.

The panic of 1907, like previous panics, supplied the propitious opportunity to the great magnates to crush out lesser magnates and seize the control of their property.

The requirements of industrial centralization demanded the effacement of certain minor magnate groups which, from the point of view of the great magnates, had possessed themselves of a rather dangerous degree of industrial and financial power. These ambitious little magnates had imitated the methods of the great; they had combined fraudulent financial manipulation with the oppressive exercise of political power, and thereby had tricked or forced out the owners of various properties, and had then vested the ownership of those properties in themselves. The form was the usual one of organizing large corporations, with immense amounts of watered stock. These corporations were built upon the ruin, extinguishment or buying out of numbers of former independent business men.

#### HOW THE LITTLE MAGNATES GET THEIR MILLIONS.

One of these minor capitalist cliques was what was called the "Heinze-Morse-Thomas Group." Its control comprised twelve banks and two trust companies; a coastwise steamship company, consolidated by the inclusion of a number of steamship companies; large copper mines, a trust in ice, and various other properties. The control of some of these properties was largely secured by means of the enormous profits robbed from the poor

by the exactions of the Ice Trust, and this robbery was made possible and easy by means of a corrupt alliance between Morse and the Tammany administration in New York City.

Before organizing the Ice Trust, Morse had been an inconspicuous banker. In the course of this business, he had dealings in discounting the notes of various individuals and firms engaged in the selling of ice. Conceiving the idea of forming a trust in that necessity, he set about to crush out the small dealers. One of his first steps was to assure himself of the collusion of powerful politicians ruling the government of New York City.

In its investigation of the administration of New York City, the "Mazet Committee"—an investigating body appointed by the Legislature in 1899—exposed the conspiracy between the Ice Trust, on the one hand, and, on the other, the Dock and other municipal departments, to create and maintain a monopoly of New York's ice supply. Mayor Van Wyck, a puppet of the big Tammany leaders, subsequently admitted in his testimony, before Judge Gaynor, of the New York Supreme Court, that he had obtained five thousand shares, worth \$500,000, of Ice Trust stock. He alleged that he had paid \$57,000 in cash for them. Pressed for proof to substantiate his statement, he failed to prove that he had actually paid anything. The testimony before the "Mazet Committee" conclusively showed that the corrupt arrangement between the Ice Trust and the city officials was such as to compel the people to pay sixty cents a hundred pounds, and that the trust had stopped the sale of five-cent pieces of ice, practically cutting off the supply of the very poor.<sup>2</sup>

<sup>2</sup> See "The History of Tammany Hall."

With its assured monopoly, the Ice Trust declined to make the slightest concession.

#### MILLIONS FROM SUFFERING, DISEASE AND DEATH.

The result was a noticeably great increase in the rate of mortality among the children of the poor. Large numbers of families, living on the most precarious edge of destitution, could not afford to pay the extra five cents demanded for a piece of ice. The milk soured and acted like poison on the children. The increasing number of deaths in successive summers when the terrific heat made ice an absolute necessity, especially in the congested tenements, could be traced, in large part, to the methods of the Ice Trust. Millions of other people who could ill afford to pay the exactions demanded were compelled to give up extra tribute or go without ice.

This was not a temporary condition; it has continued so ever since the organization of the Ice Trust; the methods then adopted prevail now. Neither were the methods any different from those of capitalism in every field. The invariable principle upon which capitalists acted, and by which they tremendously augmented their profits, was to sell necessities at the very highest price when the people needed them most. In the depths of winter the price of coal was always raised to an exorbitant point. While giving his bits of donations for the founding of hospitals, the successful capitalist reaped his millions from conditions productive of vast suffering and disease on every hand.

The more profits that he made, the more of a financial genius he was accounted by his class, and by all who were influenced by the standards of that class. As soon

as Morse proved that he could exact immense profits, he was hailed as a very foremost and successful capitalist. The newspapers began giving extended notices of him, the price of Ice Trust stock went up in Wall street, and fine men and women in elegant society were only too eager to get hold of stock paying such rich dividends. True, charges of violating the law were made against Morse and his associates, but those charges were not based upon any concern for the mass of people, nor upon any indignation at the privations, suffering and deaths caused by the methods of the Ice Trust; they were made solely on behalf of the smaller firms whom Morse had forced out of business. Jerome, for some years District Attorney for New York County, could discover no criminality in any of Morse's methods, and caused criminal proceedings brought against the Ice Trust officials to be dismissed. A suit, however, brought by the Attorney General of New York State against the Ice Trust for violation of the State anti-monopoly act is now pending.

From this process of exaction and indirect murder on a great scale, the Ice Trust's profits became very great. The money thus taken in, Morse used to finance other enterprises. Buying up the control of a number of coastwise steamship lines, he consolidated them into one corporation, with the familiar accompaniments of stock watering and juggling. He allied himself with the Heinzes who owned large copper mines in Montana, and whose manipulation of the politics and politicians of that State was somewhat similar to that Morse used in New York City. Also, he made a coalition with Thomas, who controlled some New York banks.

On the surface this seemed a very powerful combination; not an opportunity was lost by Morse and his asso-

ciates to spread abroad the impression that they were too formidable to be overthrown.

#### THE GREAT MAGNATES LIE IN AMBUSH.

These men made much noise in the financial world, and dashed around with prodigious belief in their invincibility. They were vaunted as great financiers; doubtless inflated by their own success, they esteemed themselves so, and judged themselves fully able to cope with the great magnates. In the meantime, the Morgan and Rockefeller group was carefully observing their operations, and awaiting the ripe time when they could be crushed out at one blow. The Standard Oil Company wanted those copper mines, and the steamship company organized by Morse was considered a competitive menace to railroad lines controlled by the Morgan and Rockefeller interests.

Senator La Follette's account of events that followed was accurate as to the facts. In his speech in the United States Senate he gave this narrative:

Suddenly, in the first days of October, somebody (to use a Wall street phrase) began to "smash United Copper on the curb." The stock broke badly. Standard Oil was getting under way. Doubtless, never suspecting the source, Heinze, through his brother, a member of the Stock Exchange, and through brokers, bought and bought until United Copper went out of sight, carrying down Heinze's brother, one firm of his brokers, and involving the Morse-Heinze banks in the crash.

Up to this point the panic had been well in hand, but with the revelations following hard upon clearing house investigations, it slipped its bridle, and the situation assumed a serious aspect. But not for one moment did Morgan or Standard Oil miss the opportunity offered. Morse and Heinze were forced out. They were compelled to reorganize their directorships, and substitute semi-dependent Standard Oil men as their successors.

They were forced to sell their stocks for what they could get. Morgan attacked Morse's Consolidated Steamship Company stocks and bonds, and Morse was ultimately forced to surrender his steamship company combine, which he did.

They went after the Knickerbocker Trust Company, Charles T. Barney, president, and close ally of Morse's. It was charged in New York that the interests deliberately started a run on the Knickerbocker. Morgan was appealed to for aid. Morgan, whose plaudits have been sounded right here in this Chamber, was in a position to follow carefully every step and phase of this proceeding. In the first place, Morgan gave out, as reported in Wall street, that the Knickerbocker would be supported if it met the demands of the depositors who had started a run upon it. There was nothing in subsequent events to indicate that there was any sincerity in that promise, but an analysis of every step is convincing to the contrary. Support was not given; it was withheld. After the company, relying upon that pledge, had paid out millions, it was forced to close its doors, and Barney went to a suicide's grave.

Barney was likewise a director in the Trust Company of America, a comparatively new institution, with a few System directors, giving the great groups a semi-interest in the institution, though they have not yet taken it over. The raid of Heinze, Morse, Barney et al., and the latter's directorate connections with the Trust Company of America, caused public suspicion to fall upon it. A strong run was started. This was not on the program, but as the Vanderbilts, allies of the Standard Oil, were represented on the directorate of the Trust Company of America, Standard Oil was bound to offer some assistance. Though gold and bank notes were ostentatiously piled on the counters to impress depositors, and young Vanderbilt offered as an exhibit of resources and placed at the teller's window, the excited depositors persisted in demanding their money.<sup>8</sup>

In a day, as it were, the Morse-Heinze-Thomas group was smashed into nothingness, and its properties seized. If the experience of those venturesome little magnates

<sup>8</sup> "Centralization and Community of Control in Industry, Franchises, Transportation and Finance — The Panic of October, 1907, and Its Lesson." — Speech of Hon. Robert M. La Follette of Wisconsin, etc., 21-22.

had ended there, they would have had cause to rejoice over their good fortune. But their rout had to be made complete. The Federal authorities began to take a sudden interest in their operations. Where previously the Government's prosecuting officials had been wholly unaware that Morse, Heinze and Thomas had been committing fraud in their financial methods, they now spied out the fullest evidences. From certain quarters proofs were offered of violations of the law by the fallen trio. The United States District Attorney's office in New York City became alive with energy. It caused grand jurors to investigate, and showed striking official zeal in the prosecution. Heinze was indicted, and Morse brought to trial, convicted, and sentenced to fifteen years in prison—a verdict from which he appealed. The United States Circuit Court of Appeals affirmed the verdict,<sup>4</sup> and Morse is now serving his term in the Federal prison at Atlanta.

Morse and Heinze learned two valuable lessons which all aspiring little magnates might well take to heart: First, that it is extremely unwise to cross the interests of the really big magnates; and, second, that those magnates can use the criminal machinery of the courts against opponents of their own class, not less than against labor leaders, labor unions and the propertiless in general.

But the grasping of the properties of the ousted combination were not the only seizures during those harvest

<sup>4</sup> During his commitment in the New York city prison the United States judges allowed him to go out every day in order "that he might attend to necessary business." Of the vast number of persons convicted of crime, not a single instance has ever been known of a poor prisoner being allowed to leave prison during the day so that he might work for his family. The court decided later that Morse could go free under bail pending the decision of his appeal. No poor prisoner was allowed this privilege.

days of the panic of 1907. The electric apparatus factories of the Westinghouse Company had long been in the way of the Standard Oil Company, which owned the General Electric Company. The Standard Oil Company exercised a financial pressure during the panic that soon drove the Westinghouse Company into an extrication, from which it escaped only by becoming a Standard Oil property. And, in the conferences held by the Wall street financiers during the early days of the panic, Morgan learned that the control of the Tennessee Coal and Iron Company, in the form of stock, had been placed with the Trust Company of America by John W. Gates and his associates to secure loans. This was information of the highest and most momentous value.

#### THE STEEL TRUST ABSORBS A DANGEROUS COMPETITOR.

The Tennessee Coal and Iron Company was the most dangerous competitor of the Steel Trust. It was the one great competitor having its own sources of iron ore and coal supply. In the fall of 1907 it owned, it was estimated, from 500,000,000 to 700,000,000 tons of iron ore, 2,000,000,000 tons of coal, and "very large quantities of flux and fluxing material." All of these coal deposits were within a radius of thirty miles of its plant in Birmingham, Ala.<sup>5</sup> The owners of this company were planning improvements which would have made it an even more serious competitor of the Steel Trust, and they had plans under way of merging the Republic Steel Company with their corporation. Moreover, the Tennessee Coal and Iron Company was foremost in the development of the open hearth system of making steel

<sup>5</sup> Testimony before the United States Senate Committee on Judiciary, February 2, 1909.

rails. Its rails were in greater demand, and brought higher prices, than those of the Steel Trust.

In the difficult financial position of the Trust Company of America, the Morgan and Rockefeller interests, working in unison, saw their great opportunity of eliminating the competition of the Tennessee Coal and Iron Company. To prevent itself going into bankruptcy, the Trust Company of America needed large and immediate amounts of cash, which was scarce. Morgan and his clique had the cash. The condition insisted upon by Morgan was that the company should sell him the stock of the Tennessee Coal and Iron Company that it was holding as collateral for loans. Hard pressed, the Trust Company had to yield, and sell the stock at the low price offered. The next move was to make the Tennessee Coal and Iron Company a part of the Steel Trust.

There was, however, an obstacle. The Federal anti-trust law prohibited such combinations. How could this situation be overcome? President Roosevelt was incessantly and gustily threatening the great magnates with the enforcement of this law. But apparently Morgan knew Roosevelt much better than the country knew him. He undoubtedly reckoned that Roosevelt's talk was mere words, and that Roosevelt would prove his subservience anew in acts.

The story was current that Morgan, on arriving at the White House, informed Roosevelt that unless the merger of the two steel companies was allowed by the Government, the Trust Company of America would go down in failure, causing a train of other bankruptcies, and the panic would be manifold intensified. Whatever were the reasons for Roosevelt's submission, he gave his consent. At that very time the courts were enforcing the anti-trust law with a construction that no one had

dreamed of when the law was passed. The eminent judges discovered that labor unions were trusts, and issued writs against them on the ground that they were conspiracies in defiance of that law! Roosevelt was bitterly denounced;<sup>6</sup> his action, however, mattered little so far as the merging of the two corporations was concerned; had not the Steel Trust obtained control at that particular time it would have inevitably done so at some other time, and by another process.<sup>7</sup> According to disclosures before the Senate Committee on Judiciary, the Steel Trust made a profit of \$67,000,000 by forcing the

<sup>6</sup> Seven United States Senators signed a document severely arraigning him for sanctioning a violation of the anti-trust law and for practically commanding the United States Department of Justice to take no steps for an enforcement of the law.

Under the caption of "Morgan, Dictator," the Berlin Tageblatt, on December 3, 1907, published a leading article on its financial page, urging the prosecution of Morgan for blackmail in threatening a more disastrous calamity in case Roosevelt did not accede. Under the German laws, said the Tageblatt, Morgan would have been immediately arrested for blackmail. An amusing comment, considering that Morgan and his kind are the Government in the United States.

<sup>7</sup> The futility of the anti-trust law, so far as it is applied to capitalist corporations was mockingly shown by Congressman Littlefield, one of the Republican dictators of Congress and a trust advocate of great skill. In an address to the Illinois Bar Association on June 27, 1908, he pointed out:

"In 1907 the Government had in its service one hundred and seventy-one District and Assistant District Attorneys. This little army of lawyers cost the Government in salaries and expenses \$735,612.06, in addition to the salaries of the Department of Justice, amounting to \$270,965.58. By the exercise of due diligence they obtained 9,741 convictions for violation of the law. The average number of convictions for violation of the Sherman Anti-Trust law during the last six and one-half years is a little more than one a year, only seven since September 14, 1904.

"In order to get the full significance of this record it should be borne in mind that during this period the Government has had available for its use for the enforcement of this special statute \$500,000 in 1904, and \$250,000 in 1908. Since September 14, 1901, with eight injunctions and seven convictions, \$386,242.88 has been expended for this special purpose, resulting in fines of only \$96,000."

Trust Company of America to sell the control of the enormously valuable plants and mines of the Tennessee Coal and Iron Company at a preposterously low price.

Where did Morgan and his associates get the money with which to carry on the process of terrorizing the country and gathering in immense industrial and other properties? Again, the people had another of those frequently occurring vivid opportunities of seeing how thoroughly the United States Government was an instrument of the capitalists. In the banks there were more than two hundred million dollars of money wrung fundamentally from the sweat of the working class in taxation. The few oligarchs controlling the great banks were allowed to use this money as though it were their private property. They declined to loan any money to anyone until their plans were ready, and when they did loan, it was at extortionate rates of interest. Even this complete transference of Government funds did not satisfy them; they demanded more. The Government at once responded. Cortelyou, Secretary of the Treasury, instantly permitted the national banks to issue thirty million dollars more in paper currency, and made the mints work night and day to turn out fresh coin.

Posing as the savior of the country, Morgan came forward at the auspicious time, on the afternoon, of October 24, 1907, and magnanimously announced his desire to "relieve the tension." The entire capitalist class, excepting the very few magnates thus engineering the whole situation, was clamoring for loans of money. The loans were finally given on that afternoon. The "savior of the country" demanded from twenty per cent. upwards for loans, and exacted securities as collateral at heavy sacrifices to the borrowers. The money that he thus loaned was Government money, squeezed in taxa-

tion from the producers. It was a classic example of Government of, for and by the great capitalists.

#### NO AID FOR THE UNEMPLOYED.

While the Government was placing the treasury of the United States at the disposal of Morgan, what was it doing for the millions of workers thrown into enforced idleness and destitution? By June, 1908, it was conservatively estimated that perhaps five million workers in the United States were out of work, and could get none. Reports from the charity organizations in every city showed that the cities were overcrowded with the homeless and unemployed. Destitution was rife, and cases of starvation of men, women and children, were more frequent than the official reports dared reveal. The jails throughout the country were crowded with men who, thrown out of work, were adjudged vagrants and sentenced. Many of the homeless voluntarily committed some breach of the law in order to be sent to jail. There, at least, shelter and food could be obtained. Many towns adopted the plan of deliberately driving out the unemployed. Everywhere crime increased; driven to absolute necessity, many workers stole, and, of course, were dispatched to prison. The Social Ethical League, of New York City, reported that crime had increased fifty per cent. within six months.

With destitution and starvation everywhere, what did the Government, whether National, State, or city, do for the unemployed? Nothing except to club and terrorize them when they presumed to hold street meetings to plead for the right to work.

In the whole sphere of government there was not a single real representative of the workers to speak or act

for the workers. The Government was a Government elected by the votes of millions of workingmen, yet the working class did not have a single mouthpiece in that Government. A Senator such as Davis of Arkansas might rise, as he did, in the United States Senate on December 12, 1907, and fiercely denounce "the stock gamblers and thieves of Wall street," but, he, and all like him, did not speak for the working class, about which they cared nothing save to keep it in submission; they spoke for the middle class and for that alone.\*

#### A CAREER STILL IN EVIDENCE.

This is the true history, in outline, of the career of the great "savior of the country." But it is not all. Unquestionably Morgan has been engaged in a large number of other transactions of which no details have ever become public. Some very recent happenings, however, are tolerably well known. He and other American bankers were dissatisfied with the placing of a \$27,500,000 loan with European bankers, and insisted upon the United States Government — their Government — demanding that they should have a share. Nor is it so long ago that another transaction of Morgan's became public. He "consented" to take a \$30,000,000 six per cent. issue of New York City's bonds in order "to save New York's credit." Did he pay for these bonds in cash? Nay. He signed a check for \$15,000,000 on the First National Bank of New York, and another for \$15,000,000 drawn on the National City Bank of New York. Whose money, virtually, was it in these banks

\* A very curious speech Davis' was — a belated product of the brand of the year 1880. (See Congressional Record, First Session, Sixtieth Congress, Vol. xlvi, No. 8: 285-299.) Davis spoke for the interests of the Southern cotton planters.

against which Morgan's checks were drawn? Money deposited by the United States Treasury. In addition, he obtained tens of millions more of New York City bonds at a high rate of interest. The heroic qualities of the "savior of the country" are further illumined by Comptroller Metz's statement that he, Metz, in order to get Morgan to accept New York City's bonds, had to betake himself to Albany, and get a special act passed by the Legislature increasing the interest on the bonds. Another such illustration of Morgan's methods, or those of corporations controlled by him, will be given.

At an expense of more than \$22,000,000<sup>9</sup> (reckoned to November, 1909) New York City has constructed a series of extensive, modern piers on the Hudson River, from Little West Twelfth street to Twenty-Second street. These piers are called the Chelsea Pier Improvements. The entire cost has been defrayed by New York City, and the money was obtained from selling issues of city bonds. The interest rate has varied from three, to nearly five, per cent. Part of the bonds are payable in thirty years, a very small portion in forty years, and most of the total issue "matures" in fifty years.

These piers have been leased to three steamship companies, one of which is the International Mercantile Marine Company, organized by Morgan, another is the Cunard Line, a third the Compagnie Generale Transatlantique. These companies secured from the Tammany administration, in 1904, a lease of such a scandalous character that the city does not get enough revenue to pay even the interest on the bonds issued for the piers. On December 16, 1903, the International Mercantile Marine Company offered, in writing, to take a lease of five full piers and one half pier at an annual rental of

<sup>9</sup> Statement of New York City Dock Department.

\$450,000.<sup>10</sup> The question of awarding this lease was still pending when Tammany came back into power. The International Mercantile Company then secured the return of its first offer,<sup>11</sup> and a thirty-year lease was made later by which the three companies secured nine piers at an annual rental of \$565,000.<sup>12</sup> Inasmuch as the International Mercantile Marine Company alone had originally been willing to offer \$3,392,351.46 for the nine piers for a thirty-year period, this change in the terms entailed a loss to the city of nearly three million dollars. The result can be stated as follows:

The Chelsea improvements have cost the city \$22,000,000.

The annual interest charges that the city is required to meet are \$844,800.

The amortization charges are \$220,000.

The calculated annual depreciation is \$345,553.50.

The total annual charges are, therefore, \$1,410,-353.50.

The annual rent received from steamship companies for these piers is \$565,000.

Hence, the net loss per annum to the city is \$845,-353.50.

The loss to the city per day is \$2,316.04.

Thus New York City's officials were prevailed upon to lease the largest and finest piers in New York, if not in the United States, at a lower rental than the city had been receiving for older and far inferior piers, so that New York City loses \$845,353.50 every year. And while Morgan's International Mercantile Marine Company was profiting by this transaction, Morgan was giving \$20,-

<sup>10</sup> New York City Dock Department Report, 1903:942.

<sup>11</sup> Sinking Fund Report, 1904:2.

<sup>12</sup> *Ibid.*, 1906:786.

000 a year to the Bureau of Municipal Research to investigate, and expose, petty graft! Comment is needless.

These transactions, however, are small compared to Morgan's still more recent activities. On December 2, 1909, Morgan personally bought the majority stock of the Equitable Life Assurance Society, which Thomas F. Ryan, in 1905, had purchased from the Hyde family. By this purchase Morgan acquired the ownership of the stock around which revolved such a bitter contest for possession four years previously—a contest which (as already described) caused the great insurance scandals and revelations of 1905. By the purchase of this stock, Morgan obtained control of assets rated at \$470,000,000; he paid, it was reported, approximately \$2,500,000 for Ryan's stock. Thirteen days after this purchase, he bought a number of telephone lines, competitors of the Bell Telephone Company, probably to unite them with the Bell system. A legislative committee in Ohio has been investigating charges that bribery was used to pass a bill allowing this merger.

Morgan's next step revealed how rapidly he was extending his already gigantic power. By purchase, combination or "community of interest" he acquired the Guarantee Trust Company of New York, a ninety-million dollar concern; the Mercantile Trust Company, with resources of \$68,475,000; the Equitable Trust Company, with assets of \$63,800,000; the Morton Trust Company — formerly controlled by Ryan —; the Fifth Avenue Trust Company, and other very powerful banking institutions. Morgan's power now embraces banking and trust, insurance, industrial and transportation companies, and controls or influences capital estimated, at the very

least, at *more than ten billions of dollars*.<sup>18</sup> How much of this stupendous sum Morgan personally owns or controls, or what alliance he has with the Rockefellers or other great money interests, are factors not definitely known. After consummating this Money Trust, he was hailed as the "Money Emperor," and his immense possessions were denounced as an impressive and ruthless example of one-man power, although the step was, in reality, another inevitable bound in the centralization and overlordship of the country's resources. Only those blind to this development were astonished by it.

Finally, to end the narrative of Morgan's career, there remains the huge expropriation of resources, estimated at a value of from \$900,000,000 to \$2,000,000,000, in Alaska, and of vast stretches of water-power sites in that Territory, and in various of the Western States—sites intrinsically and potentially valued at hundreds of millions, if not billions, of dollars. The successful efforts under way on the part of great capitalist interests to obtain immense stretches of coal, copper and other mineral land, timber lands and water-power sites, were resisted by Gifford Pinchot, United States Chief Forester. A critical controversy ensued, in 1909 and 1910, between Pinchot and Ballinger, Secretary of the Interior. Charges were made that Ballinger had, before his prior appointment as Land Commissioner, acted as attorney for certain of the claimants, especially the Cunninghams, who had obtained great tracts of land of the most valuable resources. A Congressional investigation resulted.

This investigation is still (at this writing) going on.

<sup>18</sup> Some authorities place the amount at fully twelve billion dollars.

Many facts, however, popularly regarded as startling, have already been brought out; in no sense, however, were they other, at basis, than a continued story of the fraudulent appropriation of public lands which has been going on in this country for three centuries. Pinchot and L. R. Glavis, Chief of the Field Division of the General Land Office at Seattle, Washington, were, upon various pretexts, dismissed from office after they had exposed, and vainly sought to stop, the gigantic land frauds in progress.<sup>14</sup> This, as we have so copiously seen throughout this work, has been the fate of so many honest public officials obstructing capitalist fraud. On January 28, 1910, Glavis testified before the Joint Committee of Congress that he had been requested by Ballinger to hold up his investigations of fraud until after the election (of 1908), and that Ballinger supplied secret information of the U. S. Land Office to the Cunningham claimants, who, the testimony showed, were dummies acting for the Guggenheims.<sup>15</sup> Some of the charges

<sup>14</sup> Of Glavis, Mr. Heney, retained by the Government, under Roosevelt, to prosecute powerful land thieves, wrote to the editor of "Collier's Weekly":

"This will introduce Mr. L. R. Glavis, who is Chief of Field Division of the General Land Office at Seattle, Washington. I am in a position to know from experience with him that Mr. Glavis possesses sterling integrity, as well as a high degree of practical intelligence.

"He possesses information in regard to a gigantic coal-land swindle in Alaska by Guggenheim and others, and I want you to know the facts, so that you will be in a position to act when the proper time comes. Mr. Glavis is actuated solely by a desire to prevent this fraud from being accomplished. He is ready and willing to lose his position, if necessary."—"Collier's Weekly," issue of February 19, 1910.

<sup>15</sup> The assertion was made, by at least one member of Congress, that Ballinger's appointment as Secretary of the Interior had been brought about by the Guggenheims in return for a large campaign contribution that they had made. This assertion so far has not been proved. It should also be noted here that the election of one of the Guggenheims as United States Senator

made by Glavis were confirmed in a rather unexpected manner. It appeared, by an authoritative statement, that J. P. Morgan and Company had formed a syndicate with the Guggenheims, in 1906, and that they had taken over the Cunningham claims. On February 18, 1910, John N. Steele, general counsel of the syndicate, and Stephen Birch, its managing director in Alaska, voluntarily appeared before the Joint Committee of Congress, and made this statement, also denying that the syndicate had ever received money, grants of land or special rights from the Government. In its own defence, the General Land Office, on January 26, 1910, ostentatiously made a public statement evidently intended to discredit Pinchot, showing that the most extensive land frauds had been consummated in the years immediately preceding the Taft administration; that within eight years fifty thousand acres of coal lands, valued at \$10,000,000, had been obtained by fraud,<sup>16</sup> and that it was expected to recover these fifty thousand acres.

Inasmuch as the Joint Investigating Committee of Congress has not concluded taking testimony, its report is not available, and Ballinger's full defence cannot, therefore, be given. The testimony taken thus far, however, has tended to show the most enormous frauds in either the successful or attempted acquiring, through dummies, of mineral, timber and water-power lands val-

from Colorado was followed by charges of the most widespread corruption.

<sup>16</sup> ". . . It appears from these reports that during the last eight years coal lands within the United States have been obtained by fraud to the extent of over 50,000 acres. These are usually the very best of the coal lands, and are to-day worth easily \$10,000,000. If mined on a royalty sufficiently low to enable independent operators to compete with existing coal combinations the returns to the Government would reach over \$100,000,000. . . ."—Statement of the General Land Office, January, 26, 1910.

ued at hundreds of millions, if not billions, of dollars, thus showing that the seizing of land, begun in settlement times, has continued through more than three centuries up to the very present without any serious interruption.

Commencing his career with the sale of those condemned rifles to the Union Army during the Civil War, Morgan has prospered until he now towers as a financial colossus and as one of the actual rulers of the land. He lives in a splendid mansion on Madison avenue, New York City, and for his private gratification built, adjoining it, a fine, spacious marble art gallery, filled with the costliest works of art. He professes a passion for literature, and his library is extensive. He is even a dictator of the morals of other people, as witness his stopping of the opera "Salome" when it was first produced at the Metropolitan Opera House, of which he is a patron and director. Money, grandeur, prestige, power, all are his. And all the while the prisons are crowded with petty thieves.



**STEPHEN B. ELKINS.**



## CHAPTER XIII

### THE ELKINS FORTUNE

With a fortune conservatively estimated at \$50,000,000, but undoubtedly reaching much more, Stephen B. Elkins is one of the notable multimillionaires of the United States. Compared to the wealth of such magnates as the Vanderbilts, the Goulds, Morgan and Hill, Elkins' possessions are not remarkable; he can not be placed in their special class. But his wealth has elevated him to be one of the most powerful politicians in the country; he is one of the active ruling leaders of the United States Senate; the State of West Virginia is virtually his province, not only politically, but to a great extent, as his personal property. He owns or controls many of its mountains and its coal mines, and much of its other natural resources; some of its railroads are his, and also its traction companies. The West Virginia Central Railroad, sold a few years ago to the Goulds for \$18,000,000, was controlled by him; this was but one of his railroads. In the same State he owns banks and security companies, construction corporations, coke plants, water works and other diversified properties. He has large mining, land and other interests in the West.

#### WEST VIRGINIA IS HIS PROVINCE.

Elkins is the great lord of wealth whose word is law in West Virginia. Whether the State goes Democratic

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or Republican matters little; its control is a strictly family affair. While he is the Republican ruler, his father-in-law, Henry G. Davis, reputed to possess a fortune of at least \$30,000,000, has long been the Democratic boss. Whichever of these political parties has been in power, this family has been on the winning side. Some few years ago, when "conservative Democracy" gained the upper hand over the middle-class elements in the National Democratic Convention, Davis was selected as its candidate for Vice President of the United States. The forms of "popular government," so-called, still prevail in West Virginia, but only to carry out the designs and will of such magnates as Elkins and Davis, as in other States they are used to execute the plans of magnates who rule in them. The Elkins-Davis family ordered the legislature to elect Elkins to the United States Senate, and the honorable Legislature did it. State and county officials, judges and other functionaries owe their incumbency and allegiance to this family. Elkins, at present, is the grand factotum of West Virginia politics. Yet twenty years ago he was considered an interloper.

The same wealth that has enabled him to center in himself political and industrial control of an entire State, is, it is reported, to bring him a new distinction. His daughter, it is rumored, is to marry the Duke of the Abruzzi, a member of the royal reigning family of Italy. These royal families, as is well known, are extraordinarily solicitous of the preservation of caste; "noble blood," hallowed by ancient ancestry, is of all things, demanded as a passport of admittance into the sacred circle. And for intimate admission nothing less than similar "royal blood" usually suffices. If royalty examines ancestry with such scrupulous care, why should it not critically examine the origin of the wealth to

which it attaches itself? Would royalty think of marrying without having a genealogy duly made out and verified? If it is true that the Elkins fortune is to enrich the royal family of Italy, surely its history likewise ought to be known and treasured in the royal archives.

Senator Elkins inherited no wealth; he is wholly "the architect of his own fortune." What were the species and style of his architecture? According to the routine biographies, ordinarily paid for at advertising rates, his was the memorable career of a poor boy rising to great wealth by hard work, application and superior ability. But official documents have a very different tale to tell; and while they do not explain how Elkins obtained all of his millions, they give enough vivid details of the methods by which he first became a millionaire.

As a young man, Elkins was repeatedly accused of being one of Quantrell's band of marauders during the Civil War, as to which charge no actual proof can be found in the records. After the Civil War he went to New Mexico. There he studied Spanish and became a member of the Territorial Legislature. His enemies, both partisan and personal, brought the accusation against him that he was the originator and ringleader of the immense land frauds current in New Mexico. This particular charge was both unjust and false. Long before Elkins drifted into the Southwest the land frauds were notorious; what he and others did after the Civil War was nothing more than a continuation of what had been going on for many years.

It is characteristic of the way in which American history has been written that not a line can be found of the gigantic frauds by which tens of millions of acres of land were stolen in the Southwest and in the Pacific States after the Mexican War, although court records

and other official documents relate enough details to make an extended work by themselves. In Chapter II, Vol. II, of this work a brief summary of these colossal frauds was presented, with the explanation that further facts would be more fully set forth in this chapter.

Under the Mexican colonization laws no individual was entitled to, or could claim, more than forty-eight thousand acres. The Mexican authority in California was overthrown by the American forces on July 7, 1846, and elsewhere at about the same time. When it was evident that the Mexican power was about to pass away, Pio Pico, the Mexican Acting Governor of California, at once began to issue fraudulent grants of land, which, the court records indicate, were given for bribes. Most of these grants were presented in May, 1846. Numerous other land grants, alleged to have been given by him at the same time, were forgeries. The Supreme Court of the United States found some of them so when the Government later contested their validity. The Mexican governors corruptly gave some land grants, while many other grants were forged, with the signatures of the Mexican governors.

#### GREAT LAND FRAUDS FOLLOWING THE MEXICAN WAR.

When the Mexican war was over, American capitalists bought from the Mexican holders large numbers of the land grants covering many millions of acres of the very best and richest agricultural, grazing, mining or timber land in California, New Mexico, Colorado, Arizona and other sections. In fact, some of these alleged grants comprised large portions of the populous cities and towns. The American capitalists then made application to the United States Government to have the grants confirmed.

In nearly every case the Government denounced the grants as forged and otherwise fraudulent, and refused. The claims were then taken to the courts.

One individual, Henry Cambuston, claimed eleven square leagues of pasture land on the Sacramento River, as having been granted by Acting Governor Pico on May 23, 1846. The California courts decided in his favor. These local courts throughout California and other portions of the West seem to have been in collusion with the land grabbers, and were often composed of judges who were themselves interested in land-grabbing operations. The Government carried the Cambuston case to the Supreme Court of the United States, asserting that the purported grant was fraudulent and forged. The Supreme Court of the United States, in December, 1857, handed down a decision expressing doubts of the genuineness of the grant, and reversing the decree of the California courts.<sup>1</sup>

Another claimant, Fuentes, had the assurance to carry his claim to eleven leagues of California territory to the Supreme Court of the United States. In his argument before this court in December, 1859, United States Attorney General Black denounced the claim as "fraudulent and spurious, a base and impudent forgery."<sup>2</sup> "It is not at all difficult to see," Attorney General Black continued, "how and when this grant was fabricated. It is in the handwriting of Manuel Castro, a part of whose business consisted in forging land grants." This particular grant, Black stated, was dated Monterey, June 12, 1843, but it had been forged in Mexico City in 1850. "There are several other grants in Manuel Castro's

<sup>1</sup> Cambuston vs. United States, Howard's Reports, Supreme Court of the United States, xx: 59-65.

<sup>2</sup> Howard's Reports, Supreme Court of the United States, xxii: 448.

handwriting," Black added.<sup>3</sup> The Supreme Court of the United States found the grant at issue to be fraudulent, and voided it.<sup>4</sup>

James R. Bolton turned up with a claim to ten thousand acres of land in the vicinity of San Francisco — a claim worth, at a low estimate, in 1851, more than two million dollars.<sup>5</sup> The grant was one purporting to have been made to Santillan, a priest, by Pio Pico, on February 10, 1846. Bolton had his claim confirmed by the courts in California on the ground that it was valid, and that he had bought it from Santillan in April, 1850, for \$200,000. The Supreme Court of the United States could not be convinced of the validity of the grant and dismissed the claim.<sup>6</sup> Another particularly flagrant case was that of the claim of Juan M. Luco and Jose Leandro Luco to 270,000 acres in California. They claimed that this alleged grant was made on December 4, 1845, by Acting Governor Pio Pico to one Jose de la Rosa, from whom they swore they purchased it. The Supreme Court of the United States, in December, 1859, found that the documents were forged. "Its confirmation," said this court's decision of the grant, "was vigorously opposed by the counsel for the Government. They [the Government's counsel] allege that the documents produced to support the claim were forgeries, supported by perjuries of persons who had conspired to defraud the Government of an immense body of valuable land. . . . The whole of the testimony is beyond doubt a mere fabrication. . . . In conclusion we must say, that after a careful examination of the testimony, we

<sup>3</sup> Howard's Reports, etc., xxii: 450.

<sup>4</sup> *Ibid.*, 443-461.

<sup>5</sup> Howard's Reports, etc., xxiii: 343.

<sup>6</sup> *Ibid.*, 353.

entertain no doubt that the title produced by the claimants is false and forged."<sup>7</sup>

A claimant, one White, claimed a large tract of land in California under a grant alleged to have been made to Antonio Ortega. The Supreme Court of the United States, in December, 1863, found that the grant was fraudulent and forged, and that the evidence was perjury.<sup>8</sup> In the case of Andres Pico against the United States for the possession of eleven square leagues of land in California, the Supreme Court of the United States decided that the grant alleged to have been made by Acting Governor Pio Pico on June 6, 1846, was fraudulent and that the documents were forged.<sup>9</sup>

#### LARGE ESTATES SECURED BY FORGERY AND PERJURY.

These were a few of the thirty-six private land claims rejected by the Supreme Court of the United States up to 1869. They were crude forgeries and the cases were not skilfully prepared. But thirty-three other claims were confirmed. Most of these were fully as fraudulent as those rejected, but the work of forgery was so cleverly done, and bought witnesses, well trained in the art of giving testimony, gave such corroborative evidence, that the majority of the Supreme Court of the United States declared that it found itself in a position where it could find no grounds upon which to dismiss the claims. Numbers of these grants embraced

<sup>7</sup> Howard's Reports, Supreme Court of the United States, xxiii: 515-543.

<sup>8</sup> Wallace's Reports, Supreme Court of the United States, i: 660-682.

<sup>9</sup> Wallace's Reports, Supreme Court of the United States, ii: 279-282.

gold and silver mines and valuable timber lands, as well as agricultural tracts.

An example of this successful imposture was the case of Hornsby vs. the United States. Hornsby claimed that Acting Governor Pico on May 6, 1846, had granted 40,000 acres of land in California to Jose Roland, from whom Hornsby testified that he bought the claim. The majority of the Supreme Court of the United States, in December, 1869, confirmed the grant on the ground that the title was possessed at the time California was admitted to the Union. But Justices Davis, Clifford and Swayne in a dissenting opinion said:

. . . The Mexican authority was overthrown in California on July 7, 1846, but the history of the times made it clear to every intelligent man for a considerable period before this date that the country would pass to the jurisdiction of the United States. During this period grants of land were made very freely by Pio Pico, the Acting Governor, and the records of this court show that many of the grants were invalid and fraudulent. Doubtless, grants were made by him within that time which were valid, but all must agree that every grant which bears his signature should be examined with the most careful scrutiny. By the record in this case, it appears that the petition for this grant is dated May 5, 1846, and the grant, if any was made, was on the following day, and did not comply with the requirements of the law conferring power on the Governor of California to grant lands. . . .

No possession of any kind is proved in this case, and the authenticity of this grant, covering an area of over forty thousand acres of land, depends upon the testimony of a single witness, unsupported by any proof, except the imperfect or mutilated expediente, found among a mass of loose papers on the floor of one of the rooms of the custom house at Monterey after the Mexican officials had fled on the approach of our forces.<sup>10</sup>

<sup>10</sup> Wallace's Reports, Supreme Court of the United States, x: 224-245.

The Congressional committee reports of the period are likewise full of evidences of the prevailing frauds.

#### AN ORGANIZED SYSTEM OF FRAUD.

In his report to Congress in 1860, United States Attorney General Black described how he had ordered the Mexican archives to be collected, and he gave the results of that investigation.

"The archives thus collected," he wrote,

furnished irresistible proof that there had been an organized system of fabricating land titles carried on for a long time in California by Mexican officials; that forgery and perjury had been reduced to a regular occupation; that the making of false grants, with the subordination of false witnesses to prove them, had become a trade and a business. . . . There was also compiled from the records here a faithful chart of all of the professional witnesses or persons supposed to have hired themselves out to do the business of false swearing of claims. To-day full biographies of nearly all of the men who have been engaged in these schemes of imposture, from governors down to the lowest suborned witnesses, can now be furnished whenever necessary.

Attorney General Black set forth further:

It must be remembered that the grants in most of these fraudulent cases were very skilfully got up, and were supported by the positive oaths, not merely of obscure men whose characters were presumed to be fair, but also by the testimony of distinguished men, who had occupied high social and political places under the former governors. Their honesty in many cases was never suspected until after the records were brought to Washington. They [the fraudulent land claims] passed through two lower tribunals, some of them without being questioned, and nearly all of them without successful opposition. . . . The value of the lands claimed under grants ascer-

tained to be forged is \$150,000,000. . . . It is vain to look for public morality under a government which fails to distinguish between honest titles and fraudulent claims.<sup>11</sup>

Reporting on February 24, 1869, on the claim of William McGarrahan to a large land grant in California including vast rich mines, alleged to have been granted by Acting Governor Pico to Vincent P. Gomez and sold to McGarrahan, the House Committee on Claims wrote:

. . . Gomez, Abrego and Moreno [the secretary of Acting Governor Pico] are suitable associates. They are equally notorious for the forgeries and perjuries in which they have been concerned. Gomez and Abrego were the chief instruments in the false swearing in the great Limantour swindle that attracted so much public attention some years ago. Ex-Secretary Stanton visited California in 1858 in behalf of the United States in connection with land cases, and then found that Abrego had been a witness to support thirty-two, and Gomez, twelve, claims, most of which ascertained to be frauds or forgeries.<sup>12</sup>

The committee went on to say that "many of the towns and cities of California are covered by these rejected claims, and if Congress is to readjudicate and reverse one case on *ex parte* evidence, then the other thirty-five will be resurrected, and an army of land sharks, lobby agents and lying witnesses will invade the Capitol and defile the halls of legislation with their schemes of forgery and perjury." The committee referred to "a bagful of the affidavits of drunken and venal Mexicans who can be hired for five dollars apiece to swear to anything."<sup>13</sup> It said that dependent upon the passage

<sup>11</sup> Ex-Doc. No. 84, Thirty-sixth Congress. Also, House Reports, Third Session, Fortieth Congress, Report No. 261: 544.

<sup>12</sup> Report No. 261, etc., 1869: 535. In one case especially, Gomez had been convicted by the Supreme Court of the United States of swearing to a false date. See Wallace's Reports, Supreme Court of the United States, vi: 589.

<sup>13</sup> *Ibid.*, 543.

of the McGarrahan bill, was a prize of more than \$500,000, and that "politicians, lawyers, and editors have taken large shares in the lottery; the professional lobby, both male and female, have been marshaled behind and around McGarrahan. The crowd is impatient of delay, and hungry for the spoils of victory."<sup>14</sup>

#### CORRUPTION OF CONGRESS AND THE COURTS.

The national Capitol was not only filled with lobbyists for these landgrabbers, but members of Congress were financially interested in the success of the fraudulent claims, or themselves held claims in the names of dummies. It was also strongly suspected, although never proved, that at least one Justice of the Supreme Court of the United States, appointed during the Civil War,—and the very one whose vote often decided the fate of the claims—was interested, either financially, politically or by friendly connection with certain of the land claimants. As we have seen in other chapters, it was no unusual matter for the highest judiciary, as well as the lowest, to hold stock or other evidences of property in corporations or enterprises, cases affecting which were decided by those very judges or their associates. These decisions would then take rank as precedents, to be cited in future cases.

But the courts were not the sole reliance of the land grabbers and other plunderers. It was Congress that they usually depended upon for the confirmation of their schemes. A confirming act passed by Congress was considered as law strictly binding upon the courts, and it was to be generally expected that the courts would con-

<sup>14</sup> Rep. No. 261, etc., 545. See also U. S. Senate Miscellanies, Third Session, Forty-fifth Congress, "Private Land Claims," Vol. iv.

strue the acts of Congress with the closest technicality. Thus it was, to mention only one instance of many instances, that Marshall O. Roberts and his partners succeeded in robbing the United States Treasury out of millions of dollars by lobbying an act through Congress so adroitly worded that, after the Court of Claims had dismissed the claim, the Supreme Court of the United States decided, upon technical grounds, that the act of Congress amounted to a ratification of their claim.<sup>15</sup>

Beginning by about the year 1860, Congress was "induced" to confirm one private land claim after another. The reports of a number of the Congressional Committees on Private Land Claims strongly suggest bribery, but no positive, specific proof appears. Very often these measures were passed in the hurry and confusion of the last days of a session, with few members knowing what they were.

After the passage of these acts by Congress, the next step was to have a fraudulent survey of the alleged grants made by land office officials. In order to make these fraudulent surveys under form of law, the land-grabbers lobbied two acts through Congress. One act, passed in 1860, authorized surveys to be made at the expense of "settlers." This meant that capitalists were virtually allowed to hire Government surveyors, and arrange with them to increase fraudulently the boundaries of the alleged grants. This is precisely what happened, as is shown in the numerous official reports cited in Chapter II, vol. II. Another act, passed by Congress in 1871, provided that the amounts deposited by settlers should be applied as part payment for the lands surveyed. The plain meaning of this act was that the money paid by the land-grabber for fraudulent surveying was

<sup>15</sup> See Chapter iii, Vol. ii, of this work.

held to be a payment for the stolen lands, and in law was technically equivalent to a virtual confirmation of his claim. By means of these fraudulent surveys, corruptly arranged for, dozens of grants of a few thousand acres each were enlarged so as each to embrace hundreds of thousands, and in some instances, millions of acres.<sup>16</sup>

#### LITTLE OPPORTUNITY FOR THE POOR SETTLER.

The colossal private claim land frauds were by no means confined to California. They went on in New Mexico, Colorado, Arizona and other States and Territories. The poor settler had very little opportunity to secure land. Almost wherever he appeared he was confronted by the capitalists who claimed vast stretches of land — agricultural, grazing, mineral and timber. So scandalous was this condition that Secretary of the Interior Thompson, in a report dated December 11, 1859, to President Buchanan, commented:

The advantages and profits arising from the settlement of a new country ought to be enjoyed by the early settlers. They have peculiar hardships and privations to undergo. The law does not contemplate that they shall have any competition, except from other actual settlers, in selecting the most fertile lands and the choicest locations. . . . There is reason to believe that the withholding of public lands from a public offering, and consequently from private entry, has often proved a temptation to fraud and an inducement to perjury; and unscrupulous speculators profit by it more than any other class.<sup>17</sup>

Aside from its recognized value as a grazing country, New Mexico was well known to be rich in mineral re-

<sup>16</sup> See the many specific examples described in Chapter ii, Vol. ii, of this work.

<sup>17</sup> United States Senate Executive Documents, First Session, Thirty-sixth Congress, 1859-60, 1:94.

sources. Acting-Governor W. W. H. Davis, of New Mexico, reported to the Secretary of the Interior on September 10, 1857, that New Mexico's mineral wealth had been long known, and he drew a fascinating picture of its rich deposits. "That the country is rich in the precious metals," he wrote, "there can be no doubt. There is good reason to believe that ores of silver occur in all of the ranges of the mountains bordering the Rio Grande, from the boundary line on the south to the extreme north of the Territory." Abandoned mines, he added, were very numerous. Hardly a mountain range in the whole country did not disclose evidence of the presence of precious metals. There were gold ores and copper in abundance, and thick deposits of bituminous coal.<sup>18</sup>

A LAND GRANT GROWS FROM 96,000 TO NEARLY  
2,000,000 ACRES.

One of the private Mexican land claims was that of Charles Beaubien and Guadalupe Miranda. They claimed that the Mexican Governor Armijo had made them a grant on February 22, 1841. On September 15, 1857, the United States Surveyor General of New Mexico reported the grant to Congress as embracing 96,000 acres. Congress confirmed it on June 21, 1860. One L. B. Maxwell had bought the claim from Beaubien and Miranda, and in 1869 he applied to the General Land Office for a survey, claiming that the grant comprised about two million acres, partly in Colorado, but mainly in New Mexico.

The Commissioner of the General Land Office freely expressed his amazement at the audacity of this claim.

<sup>18</sup> Executive Documents, First Session, Thirty-fifth Congress, 1857-58, Vol. ii, Doc. No. 2: 286-288.

He reported that the claim was an impossible one; that the Mexican colonization laws had limited the area granted to any one individual at 48,000 acres, and that in confirming the grant, Congress had confirmed it to the extent of 96,000 acres only — 48,000 acres to Beaubien and Miranda each. This decision of the Land Commissioner was upheld by Secretary of the Interior Cox.<sup>19</sup>

The Maxwell Land Grant and Railroad Company was then incorporated to push and exploit the grant. This company, in 1871, renewed the application for a survey and a patent under the claim as put forth by Maxwell in 1869. Secretary of the Interior Delano refused the application, declaring that the decision of Secretary Cox in 1869 was final as to the extent of the grant — 96,000 acres — so far as the executive departments of the Government were concerned.<sup>20</sup>

The Government officials at Washington were irritated at the persistence of the claimants and their refusal to comply with the law. On January 28, 1874, the Commissioner of Public Lands ordered the Surveyor General of New Mexico to treat the whole of the grant as public lands, inasmuch as the claimants refused to obey the terms of the decision of the Department of the Interior.

#### ELKINS BECOMES A PRINCIPAL OWNER.

Why did the claimants decline to comply with the law? Because, as the sequel showed, the foremost United States Territorial officials in New Mexico were in collusion with them. Despite the order of the Department of the Interior, which was law, the Territorial

<sup>19</sup> "Land Titles in New Mexico and Colorado," House Reports, First Session, Fifty-second Congress, 1891-92, Vol. iv, Report No. 1253 (Committee on Private Land Claims).

<sup>20</sup> United States Reports, Vol. cxxi: 326.

officials continued to assess the alleged grant as private property for taxes. The taxes, by prearrangement, went unpaid, and a fraudulent tax sale was held at public auction in January, 1877, and the grant was sold for an alleged tax debt. The nominal purchaser was M. W. Mills, a member of the New Mexico Legislature. Mills transferred the alleged tax title to T. B. Catron, United States District Attorney for New Mexico. Shortly afterward it was revealed that Stephen B. Elkins was the real party behind the whole transaction, and that he was the chief owner of the alleged title.<sup>21</sup>

Elkins had long been a powerful Republican politician in New Mexico. During President Grant's administration he had been United States District Attorney in that territory. At that time the peonage system of slavery was widespread in New Mexico, as it is still in Mexico. The laborer who fell in debt to his employer could not quit employment until the indebtedness was first discharged. This resulted in the worker's practical slavery. Under the United States laws the Government paid a fee of \$25 for each conviction of persons charged with violating the peonage statutes of the United States. Elkins, it was said, procured the indictment of thousands of Mexican violators of this law, convicted them, or compromised the cases, and, thus was enabled to pocket the fee of \$25 in each case. He became reasonably rich by this process.

He was then elected a delegate to Congress from New Mexico, and it was during this time that he got hold of the Maxwell land grant and pushed it in Congress. The records of the General Land Office, of January 28,

<sup>21</sup> House Reports, etc., 1891-92, Vol. iv, Report No. 1253. Commissioner Sparks, of the General Land Office, reported, in 1885, that Stephen B. Elkins was a principal owner of the grant at the time Elkins' brother and Marmon made the official survey.

1874, show that Stephen B. Elkins was interested in having this alleged grant surveyed; he was at that very time in Congress. Immediately after the fraudulent tax sale had been held, the Maxwell Land Grant and Railway Company made, in 1877, another application to the General Land Office for a survey and patent. This time there was no opposition from the Government officials at Washington. Matters moved with extraordinary smoothness.

The General Land Office ordered a survey. Who did the surveying? One of the two surveyors was Elkins' brother, John T. Elkins. On August 15, 1877, the United States Surveyor General in New Mexico entered into a contract with John T. Elkins and Robert T. Marmon for the execution of the survey. Their bondsmen were Stephen B. Elkins and James L. Johnson.<sup>22</sup> These surveyors reported the grant as embracing, in all, 1,714,764.94 acres. As reported by them, it comprised the finest lands in New Mexico, watered by the Rio Grande River with its numerous tributaries; towns and cities and villages; mountains filled with minerals; it took in a large range of the Raton Mountains with their rich gold and silver and coal deposits and timber lands; and extended far into Colorado, where it covered vast tracts of land. The General Land Office, on May 19, 1879, gave a patent, in the form of a quit-claim, for the whole of the 1,714,764.94 acres claimed in the survey.

Meanwhile, the grant had been mortgaged to a syndicate of Holland capitalists for the sum of 700,000 pounds in sterling money and Dutch currency.<sup>23</sup> To their consternation, they soon found that they had a bitter lawsuit on their hands.

<sup>22</sup> House Reports, etc., 1891-92, Vol. iv, Report No. 1253.

<sup>23</sup> *Ibid.*, 7.

They had been entirely unaware of the fact that the Government challenged the validity of the grant.

#### THE GOVERNMENT CHARGES FRAUD.

The Government brought an action to have the grant declared void. On August 25, 1882, it sued the Maxwell Land Grant Company, the Denver and Rio Grande Railway Company, the Atchison, Topeka and Santa Fe Railway Company and the Pueblo and Arkansas Valley Railroad Company. The Government's bill of complaint, the court record reads, "charged that the survey on which this patent was issued was falsely and fraudulently made, and that the Maxwell Land Grant Company and certain parties who made this survey under a contract with the Government, conspired to cheat the Government of the United States by including a larger amount of land than was intended to be embraced by the original grant of the Republic of Mexico; and it especially charged that about 265,000 acres, to wit, all the land lying in the county of Las Animas, in the state of Colorado, were fraudulently included in this survey and were of the value of two millions of dollars."<sup>24</sup>

The United States Circuit Court of Colorado dismissed the Government's suit, as was expected, for it was notorious that the railroad and land-seizing interests largely controlled such courts, some of the judges of which had been attorneys for those identical interests. The Government carried the case to the Supreme Court of the United States. In the argument before this court on March 8, 9, 10 and 11, 1887, the Government contended:

First — That the grant of the Republic of Mexico could not, under the Mexican laws, exceed altogether

<sup>24</sup> Supreme Court Reports, vii: 1017. Digitized by Google

twenty-two square leagues, equivalent to 97,424.8 acres of land.

Second — That the report of September 15, 1857, of the Surveyor General of New Mexico, recommended the grant for confirmation for no greater extent of land than twenty-two square leagues.

Third — That the confirmatory act of June 21, 1860, did not operate as a grant *de novo*, or new grant, for the land in excess of twenty-two square leagues.

Fourth — That the survey under which the patent was issued, and the patent itself, included, in addition to the twenty-two square leagues, many hundred thousand acres not included in the grant as confirmed, and also several hundred thousand acres (about 400,000) lying upon the outside of the eastern and northern boundaries, also not included in the confirmed grant.

Fifth — That the patent was issued by officers of the Land Department to include the million six hundred thousand excess acres because "of the frauds and deceits practiced upon the Commissioner of the General Land Office and his agents, and by Surveyor General Spencer, and the deputy United States surveyors, Elkins and Marmon, in the interest of such owners."<sup>25</sup>

In his argument United States Assistant Attorney General Maury said: . . . "Being a Mexican grant in the beginning and subject to the laws and customs of Mexico, it is for this court to determine whether there exists any authorized process of evolution, by which this original Mexican grant of twenty-two square leagues to Beaubien and Miranda have grown and expanded into the princely domain covered by this patent."<sup>26</sup> Maury contended that fraud had been abundantly proved. J.

<sup>25</sup> United States Reports, Vol. cxxi: 327.

<sup>26</sup> *Ibid.*, 330.

A. Bentley, special counsel for the Government, submitting a long brief arguing that frauds were practised upon the Government in the enlargement of the boundaries of the grant, and he also argued that the decision of Secretary of the Interior Cox, in 1869, was final.

#### THE SUPREME COURT'S DECISION.

Piles upon piles of proofs that the grossest frauds had been committed could not convince the Supreme Court of the United States. In its decision of April 18, 1887, it held that the act of June 21, 1860, was virtually a new grant, and that it confirmed the grant to the full extent of the 1,714,764.94 acres claimed—a decision received with the utmost amazement by the whole country.

With this decision in hand the Maxwell grant holders proceeded to evict settlers right and left. This raised a great storm. The settlers on the grant organized and appointed O. P. McMains their agent to present their petition for redress to Congress. In an affidavit dated May 9, 1892, McMains, on behalf of the settlers, charged the different United States authorities, such as Secretary of the Interior Noble, Land Commissioner Carter (at present, 1909, a United States Senator from Montana) and other officials with refusing to throw open the grant as public lands. This refusal, the affidavit pointed out, was in violation of the explicit act of Congress of June 21, 1860. The affidavit read on:

And the deponent further deposes and says that S. B. Elkins was the last president of the Maxwell Land Grant and Railway Company, which was bankrupt at the time of his resignation in 1875; that after 1875 the said S. B. Elkins had no connection with the said Company as officer or counsel, and took

no part in the company's affairs; that he was, nevertheless, interested as an outsider and speculator in having the land required by law to be treated as public land, again treated and surveyed as the alleged Beaubien and Miranda or Maxwell grant, and made a trip to Europe in the latter part of 1875-76 with a scheme in view for the reorganization of the Maxwell Land Grant Company.

That T. B. Catron of New Mexico, who was interested with Elkins in having the land required by law to be treated as public land, again treated and surveyed as the alleged Maxwell grant, became, on July 19, 1877, by an unlawful and fraudulent tax title deed, an alleged owner of nearly 2,000,000 acres of public land as the so-called Beaubien and Miranda or Maxwell grant; that in order to profit by the unlawful tax title deed to public land as the alleged Maxwell grant, it became necessary to defeat the enforcement of the final and valid order of the Department of the Interior of January 28, 1874, requiring the lands claimed by the Maxwell grant claimants to be treated as public land, by prosecuting anew the adjudicated Maxwell grant claim against the United States to survey and patent;

That the parties conspiring to prosecute said adjudicated claim against the United States, in violation of Section 5498 of the Revised Statutes, were Hon. S. B. Elkins, then delegate to Congress from New Mexico; Hon. T. B. Catron, then United States Attorney for New Mexico, and Hon. J. A. Williamson, then Commissioner of the General Land Office; that the object of said conspiracy was accomplished, the enforcement of the valid order of January 28, 1874, and the act of Congress of June 21, 1860, was defeated, homestead and preëmption settlers were deprived of their private and vested rights without due process of law and the United States deprived of its surveyed public lands.<sup>27</sup>

The affidavit went on to say that "the refusal of the officials to enforce the act of Congress is in the interest of the aforesaid conspiracy; that by such wrongful refusal said secretary and commissioner are aiding and

<sup>27</sup> House Reports, First Session, Fifty-second Congress, 1891-92, Vol. vii, Report No. 1824: 4-5.

abetting, by trick and fraud, the said conspiracy.”<sup>28</sup>

The House Committee on Private Land Claims, to whom the petition of the settlers was referred, found that the statements regarding the New Mexican portion of the grant were true. As to the four hundred thousand acres in Colorado, the committee reported:

“No application by the Maxwell Land Grant Railway Company has been made to the Commissioner of the General Land Office for the survey of public land in Colorado in 1877 as a portion of the alleged Maxwell grant; but a party who is in nowise connected with the company or acting in any capacity in behalf of the company — Hon. S. B. Elkins — did ask for a survey to be approved” — that would include public lands in Colorado as belonging to the Maxwell grant. It was after this survey that the whole of the 1,714,764.94 acres were mortgaged to Dutch capitalists for £700,000. This land in Colorado, the committee stated, was unlawfully appropriated. The committee concluded: “And it is the opinion of your committee that the lands included within the Colorado portion of the alleged Maxwell grant were required, by act of June 21, 1860, to be treated as public land . . . and was not a portion of the original Beaubien and Miranda grant.”<sup>29</sup>

#### SURVEYOR GENERAL JULIAN STATES THE CASE.

Congress took no action on the report of the House Committee on Private Land Claims, and the result of this complete inactivity, coupled with the decision of the Supreme Court of the United States, was that the ap-

<sup>28</sup> House Reports, No. 1824, etc., 1891-92: 5.

<sup>29</sup> “Land Titles in New Mexico and Colorado,” House Reports, First Session, Fifty-second Congress, 1891-92, Vol. iv, Report No. 1253: 8.

propriators, or their assignees, of the 1,714,764.94 acres, were allowed to retain a possession which thereafter was undisputed. George W. Julian, United States Surveyor General of New Mexico, during President Cleveland's first administration, found a state of affairs in that territory, which, in recounting Elkins' career, he described in a speech, on September 14, 1892, before the Hendricks Club at Indianapolis. After relating some of Elkins' early transactions in New Mexico, Julian said:

This experience amply prepared him for the brilliant ventures in real estate through which he became rich. His dealings were mainly in Spanish grants, which he bought for a very small price from their Mexican claimants or their grantees. The boundaries of these grants were vague and uncertain, and their definite settlement had to be determined by the Surveyor General of the Territory, subject to the final action of Congress. Elkins became a member of the land ring of the territory, and largely through his influence the survey of these grants was made to contain hundreds of thousands of acres that did not belong to them. He thus became a great landholder, for through the manipulation of committees in Congress grants thus illegally surveyed were confirmed with their fictitious boundaries.

He made himself particularly conspicuous as the hero of the famous Maxwell grant, which, as Secretary Cox decided in 1869, contained only twenty-two square leagues, or about 96,000 acres, but which, under the manipulation of Elkins, was surveyed and patented for 1,714,764.94 acres, or nearly 2,680 square miles. Congress, through the action of its committees, was beguiled into the confirmation of the grant, with the exterior boundaries vaguely indicated in it so stretched as to cover the whole of this immense area, and which confirmation by Congress compelled the Supreme Court to recognize this astounding robbery as valid. By such methods as these more than 10,000,000 acres of the public domain in New Mexico have become the spoil of land-grabbers, and the ringleader in this game of spoliation was Stephen B. Elkins, the confederate of Stephen W. Dorsey and the master spirit in the movement.

He was thoroughly qualified for his work. He was irrepre-

sible and full of resources. He was a genius in business, and in the pursuit of his ends was singularly unshackled by a conscience. He used the Surveyor General of the Territory, the Land Department in Washington, and the committees of Congress as his instruments in fleecing poor settlers and robbing the Government of its lands. To cheat a man out of his home is justly regarded as a crime second only to murder, and to rob the nation of its public domain and thus abridge the opportunity of landless men to acquire homes is not only a crime against society, but a cruel mockery of the poor. If any such considerations ever disturbed the dreams of Mr. Elkins, they were summarily silenced by his overmastering zeal in the work of "practical politics." According to Dorsey, Elkins knew more than any other person about the star route cases, which became famous a dozen years ago, and he will also be remembered as engaged in the prosecution of a claim of \$50,000,000 against Brazil while Blaine was Secretary of State under Garfield, which claim was afterward indignantly rejected by Secretary Bayard. . . .

In referring to these matters I do not speak at random, but from official documents, and ascertained facts with which I became familiar during my public service of four years in that territory under the last administration.

The "star route" frauds to which Julian referred became a great public scandal thirty years ago. By means of them the United States Treasury was robbed of large sums. The term "star route" was used to designate interior postal routes, on which the mails were carried other than on railroads or by steamboats. These routes were officially designated on the books of the Postoffice Department by asterisks or stars, thus \*, hence the term. The investigations made by the Postoffice Department and by committees of Congress did not reveal Elkins as a contractor. His signature, however, was found attached to the bonds of certain leading postal route contractors in the Southwest, and he was very energetic in securing the establishment of overland routes

in New Mexico and elsewhere. It was conclusively established that he was interested in what was called the "Kerens combination," the ostensible head of which was Richard C. Kerens, a powerful Republican politician of St. Louis. But so astutely and covertly did Elkins work that he did not appear at all in the great "star route" trials in 1882 and in 1883.<sup>20</sup>

#### ELKINS GETS THE STAMP OF OFFICIAL RESPECTABILITY.

By this time he was a noted Republican politician of national importance. In 1884 he was chairman of the Republican National Committee and in December, 1891, President Harrison appointed him Secretary of War. Harrison was not ignorant of the details of Elkins' career in New Mexico, for while a United States Senator, Harrison was a member of the Committee on Territories, and gave particular attention to the affairs in New Mexico.

Harrison was likewise acquainted with the facts of the Brazilian claim. This was an alleged claim growing out of a concession to one D. G. M. Jewett by the Brazilian Government to develop certain nitrate deposits on an island off the Brazilian coast. Jewett claimed that he had fitted out a vessel and had expended \$27,000 when the Brazilian Government annulled the concession. Elkins became attorney for Jewett and filed an elaborate

<sup>20</sup> The charge was long openly made that the reason why Elkins was not brought to trial was that he had secretly turned state's evidence, and had furnished the Postmaster General with much valuable information against his former associates. So far as the public records are concerned, no documentary proof of this charge can be found.

Kerens, it may be noted, continued his career as a conspicuous Republican politician and was appointed Ambassador to Austria by President Taft, in 1909.

brief in the State Department in support of the claim, and calling for the enormous sum of \$50,000,000 damages. Elkins tried to get successive United States Secretaries of State to press the claim, but Secretary Bayard fully investigated it in 1886, and President Cleveland sent the correspondence to the Senate, with a special message which closed as follows: "Such an egregious claim is an outrage upon any nation with which the United States has or desires to have friendly relations. I have declined to receive the papers or send any communication to Minister Jarvis on the subject."

The Maxwell land grant, and the star-route affair were only two of Elkins' many transactions in New Mexico. Meanwhile, he had married the daughter of United States Senator Henry G. Davis, a millionaire railroad and coal mine owner of West Virginia. Elkins removed to that State. With the millions gathered in the Southwest, and with the help of his father-in-law's many millions, he there became a great magnate, getting control of one property after another. He, Kerens and Davis built several West Virginia railroads, and obtained control of coal, coke, oil and lumber properties. They also financed the construction of railroads in California, Nevada and Utah. Elkins built a splendid castle-like palace in the town bearing his name; on a mountainside it commands a view of peaks and valleys for thirty-five miles. In 1895 he was elected to the United States Senate by the West Virginia Legislature, after a campaign in which, it was freely charged, corruption money, in the form of campaign funds, was distributed throughout the entire State to insure the election of members favorable to his plans. In the United States Senate Elkins has been one of the most adroit and useful law-drafters for the plutocracy. One

of his notable acts was an amendment to the interstate commerce act expunging the clause providing imprisonment for violation of the anti-rebating law, and giving complete immunity to magnates who testify in such proceedings brought against them.

As one of the wealth rulers and law makers of the United States, Elkins is obviously a very powerful and distinguished magnate. Moralizers may well contemplate his career, and consider its climax. Were the suggestion even facetiously made that our legislators should be elected wholly from prison constituencies, it would be received with either amazed shock or droll levity, according to temperament. And yet, it should cause neither of these receptions, for have we not seen herein by a convincing mass of facts, that Business Society, after all, consists so largely of those who have not been found out and punished, and those who have? Such a conclusion, as we see, is no exaggeration. And have we not also seen by the facts that the great despoilers become the dictators of the very communities whom they despoil; how would it do to reverse the process and elect the petty despoilers, convicts though they be, as rulers? 'Twould be no worse, and perhaps better. But neither of these classes can be condemned for the passions and crimes which the system, and the forces of that system, generate and too often compel; the system, not the units, stands the need of change. By the light of this fact, and this alone, Elkins' career, and that of all like him, big and little, should be considered.

## CHAPTER XIV

### THE HILL FORTUNE

Unsparingly criticised, and frequently assailed with extreme bitterness in his early career, few magnates have been the subject of more lavish eulogy in his latter years than James J. Hill. As his wealth and power rapidly grew, and he became a multimillionaire, and dictator of the political and industrial affairs of large sections of the United States and Canada, the usual transformation resulted. He ceased being the familiar "Jim" Hill derisively slurred as the "Jay Gould of the Northwest," and was metamorphosed into the great Mr. Hill, the imposing genius of stupendous achievement. A crowd of writers, well schooled in the extravagant language of sycophancy, came forth to proclaim his heroic proportions as a master mind in the constructive development of the country's resources.

For full thirty years these eulogies, all suspiciously alike as though inspired from a central source, have continuously appeared. In all of them one special dithyrambic note has been pressed. With infinite rhetorical variations, such transcendent terms as "genius of transportation" and "intellectual giant" have been freely applied to Hill. Ingeniously put forward under many fictional disguises and artful tricks of style, the burden of these lays had been the same as that so much remarked in the endless panegyrics of the Astors, the Vanderbilts, J. Pierpont Morgan, Blair, Sage, and nearly all other magnates.

Always there is the emphasis, strongly denoting an argument for a client, upon Hill's extraordinary capacity and integrity; how he obtained every dollar of his vast fortune honestly, and how (it is specified) corruption and graft have been conspicuously absent in the methods by which he amassed his wealth. One steady monotonous song it had been, varied, in long-separated intervals, by a tirade from the pen of some unyoked brother — a tirade with substance of truth, but lacking estimate and understanding.

#### HILL'S ENORMOUS FORTUNE.

The extent of Hill's fortune is enormous, but at this writing neither the exact nor approximate number of his hundreds of millions of dollars can be stated with any degree of accuracy. In one notable respect his puffers do not misstate: Hill started with no money whatever. Now that he has a colossal fortune, that fact of itself should be provocative enough to cause deep investigation; for money does not fall like rain; it must be garnered somehow; and while millions of hard workers have a difficult enough time getting a sufficiency for their simplest wants, the ease with which one man has possessed himself of vast storehouses of wealth is a grave and grim fact, well calculated at the outset to cause disbelief, on general principles, in the airy, sweeping statements of Hill's eulogists. But the very fact which should at once arouse questionings and originate investigation is converted by his panegyrists into a sublime tribute — into a conclusive proof of his remarkable power of demonstrating himself to be a "self-made man." We know too well what this commercial jargon of the day means; not a man with intelligence, ideals or

culture, but merely one of wealth; the customary bourgeois mind can, generally speaking, conceive of no other kind of successful man.

If, however, wealth can be used interchangeably with greatness, then Hill is a truly great nabob. He owns or controls extensive railroad systems in the Northwest and West; he is the owner of vast areas of land, and of mineral deposits the fabulous value of which defies calculation. He is the possessor of steamship lines and of many other kinds of property; he lives in a virtual palace, and politicians, editors, clergy and judges are his puppets. Seeing that he "began"—as his eulogists express it—without money, how did he contrive to get all this wealth? His homagers do not explain this vital question; they unctuously reel out dates and figures, and glibly relate when he obtained this or that property, but *how* he really accomplished the process they tell not.

#### THE CHARACTER OF THE NORTHWEST'S SETTLEMENT.

Hill was born at Guelph, Canada, in 1838, and migrated to St. Paul, Minnesota, in 1856. The environment into which he came, as a youth of eighteen, can easily be comprehended after a reading of the previous chapters. The Northwest was in its first real period of settlement; and not as conventional histories have it, was this settlement wholly made by "stalwart pioneers." As a matter of fact, it was made also by land-grabbers, timber thieves, gamblers, trading sharps, cutthroats and rogues in general. The rush to get land grants, mineral deposits, railroad franchises and every other available resource, was at its height. "Booms" of all kinds were projected; a horde of venal individuals swarmed in to preempt whatever they could, and fleece anybody that

they could. There was a raging mania for the rapid acquisition of wealth, regardless of the means used.

True, a stream of agriculturists, whose sole aim was to obtain cheap land and honestly till it, poured in. But this element did not give the tone to the general character of the activities. The real aggressive tone was imparted by adventurers, capitalistic and otherwise. Practically all of these capitalists were Easterners, and many of them, as the records show, had been engaged in swindles in the East. Different sets of them were busily bribing Congress, Government officials and the Legislatures for land grants, railroad charters, franchises, mineral deposits and special laws. Sharp merchants, trading schemers and real estate hawks overran the newly-settled towns and cities. The stamp of money was upon every thought and plan; the pervading ideal was wealth, no matter how acquired; all classes were infected by it. Greed was in the very air, and if the many law-suit records in the Minnesota Courts can be taken as an indication, jobbery, swindling and cheating were a very routine performance in all business transactions.

Hill came into this atmosphere of venality, avarice and corruption; a state of society judging every man by the significant question, "How much is he worth?" Long before his entry, this corruption had gained full headway. Throughout the whole West, Northwest and Southwest, the fraudulent seizure of agricultural, timber and mining lands, and the corruption of Congress and of the Legislatures for gratuitous awards of public money, had (as we have abundantly seen in previous chapters) long been notorious. The Common Councils of the cities and public offices of all kinds were generally filled with men who converted their positions into a means of securing illicit revenue. Bribed or otherwise influenced to give special

franchises and privileges or connive at frauds many of these men left offices, paying modest salaries, with a fortune.

#### THE DEBAUCHING AND SWINDLING OF INDIANS.

The character of trade in the West and Northwest had been determined early in the nineteenth century by the operations of John Jacob Astor's American Fur Company and his other fur companies. Of the nature of the methods by which Astor laid the foundations of the fortune of \$20,000,000 which he left at his death in 1848, and which fortune has since grown to be one of the largest in the world, many details have been set forth in Volumes I and II. We have seen, from the official records, how he systematically debauched numerous Indian tribes with whiskey, charged them incredibly extortionate prices for cheap merchandise which he exchanged for furs, and pauperized, and spread demoralization and death among, the Indians. We have also seen how many of the Indian uprisings, resulting in the murder and massacres of white settlers, and in the murder and punitive shooting by the traders and by the vengeful Indians in return, were originally caused by these continued practices of debauching and swindling. In Volume I it was explained that many additional facts had been intentionally left out; some of those there omitted will be described here in order to contribute to a clearer understanding of the long-prevailing trading methods in the West and Northwest.

It is clear from the reports of the United States army officers and those of the Government Indian Agents that the American Fur Company dominated the whole of the West and Northwest fur regions. The Government

had established its own trading posts, called factories or agencies, the purpose of which was to supply the Indians with merchandise in exchange either for furs or land or to relieve their destitute condition when necessary. These Government trading posts were strictly prohibited from dealing in or supplying liquor. The American Fur Company succeeded in undermining the trade of these agencies, and finally in causing their abolition. The illegal use of liquor by the American Fur Company was one of its powerful means in seducing the Indians from the Government trading posts; another successful method was by prejudicing the Indians against them by the claim that the Government merchandise was inferior. In representing to the Government at Washington that the Government trading posts did little business, Matthew Irwin, U. S. Indian Agent, at Green Bay, Wisconsin, wrote that two of the reasons for this state of affairs were because of the secret practice on the part of private traders in vending whiskey, and because of the prejudice excited among the Indians against the Government agencies. (Doc. No. 60, First Session, Seventeenth Congress, p. 60.) In a communication, dated February 22, 1822, to Senator Johnson, chairman of the U. S. Senate Committee on Indian Affairs, Thomas L. McKenney, U. S. Superintendent of Indian Trade, wrote that the agents of the American Fur Company "had a great deal at stake in overturning these establishments (the Government trading posts) and has much more at stake in the overthrow of the entire system." Superintendent McKenney wrote pointedly of the "haste of the American Fur Company to grasp the trade with our Indians." (Doc. No. 60, p. 42.)

Writing from Camp Missouri, Missouri River, to

Colonel H. Atkinson, on October 29, 1819, Major Thomas Biddle gave this description of the private traders:

These traders are continually endeavoring to lessen each other in the eyes of the Indians, not only by abusive words, but by all sorts of low tricks and maneuvers. If a trader trusts an Indian, his opponent uses all his endeavors to purchase the furs he may take, or prevent in any way his being paid; each trader supports his favorite chief, which produces not only intestine commotions and dissensions in the tribe, but destroys the influence of the principal chief, who should always be under the control of the Government. The introduction of ardent spirits [whiskey, etc.] is one of the unhappy consequences of this opposition among traders; so violent is the attachment of the Indians for it, that he who gives most is sure to obtain furs; while, should any attempt to trade without it, he is sure of losing ground with his antagonist. No bargain is ever concluded without it, and the law on the subject is evaded, by their saying they give, not sell it.

Parenthetically, a reply made by Major John Biddle to one of the interrogations addressed to him by Senator Johnson may be properly interposed here:

*Question 13.* Are the Indians judges of the quality of goods in which they trade, of the reasonableness of prices, and of the value of their own furs and peltries?

*Answer.* The Indians are very observant, and reputed to be very good judges of the articles which they are accustomed to buy. Their capacity for the petty traffic which they carry on, is believed to be much greater than is generally apprehended. The principal fraud practiced upon them is believed to be in the article of spurious liquors; *to which the seller attaches a price in proportion to the penalty he would incur from detection.* (Doc. No. 60, p. 5.)

To resume Major Thomas Biddle's communication to Colonel Atkinson: He wrote further that when the traders bought furs after an Indian hunt "a keg of

whiskey was considered an indispensable equipment of such an undertaking." He closed his communication with the following remarks:

I had found on my arrival [at the Maha nation of Indians] most of the principal men drunk. The Big Elk, who is so much our friend, and who formerly possessed unlimited power in his nation, was so drunk for two days, that I could not deliver your letter to him; when I gave it, I requested an interpreter to inform him that I had been two days waiting to deliver a letter from you, but that very much to my surprise, I had found him too drunk to transact business. He appeared affected at what I said, acknowledged how unworthy it was in him to be in that situation, and admitted he had lost much power by it. He blamed the whites for bringing liquor into the country, said when he knew it was not to be had he felt no inclination for it, but that when it was near and attainable his attachment for it is irresistible. . . .

Thus is the influence of this valuable and sensible Indian lost to his tribe and the Government, and thus is a man who possesses some traits that do honor to human nature, debased and made a beast of. (Doc. No. 60, pp. 46, 47.)

Document No. 60, First Session, Seventeenth Congress, includes this extract from a letter from the U. S. Indian Agent at Green Bay, Wisconsin, to Mr. McKenney, U. S. Superintendent of Indian Trade:

The fact can be established that in almost every case the persons engaged [as traders] by Mr. Astor's principal agent, Mr. Crooks (who is a British subject), were known British subjects; many of them having held commissions under the British Government and headed Indians during the late war [that of 1812-15]. For example, at this place Mr. Astor sent goods to the following persons, last fall, to be traded alongside the factory [Government agency]:

JOHN LOWE,  
LEWIS GRIGNON,  
AUGUSTINE GRIGNON, and  
PETER POWELL,

British subjects and holding commissions from the British Government in the Indian Department during the late war.

And the following persons were sent by Mr. Astor in the neighborhood of Mr. Rouse, whom I sent to do business with the Indians at the Ouisconsin [Wisconsin].

And Mr. Lusienaux (a British subject) was sent by Mr. Astor to trade with the Indians at Winnebago lake. At Menominee river, where I sent Mr. Thomas P. James to trade, he was opposed by a Canadian sent by Mr. Astor; and in an underhand manner by Peter Powell, a British subject who held a commission in the Indian Department during the late war.

A description followed of the secret traffic in whiskey carried on by Astor's agents, with the explanatory statement that "*it was deemed illegal to accept Indian testimony.*" In other words, Indians could be indiscriminately debauched, swindled, plundered and murdered, as we have seen in Vol. I, and yet their testimony in civil or criminal suits *was not considered legal*. The communication further described how Astor caused honest officials who exposed his methods and sought to prevent them to be dismissed from office (see note on page 84, Vol. II, of this work) and continued:

It appears that the commanding officer at Prairie du Chien undertook at the instigation of the Indian agent, to stop and send to St. Louis some of Mr. Astor's British trading subjects. For this act it is said the agent will be dismissed from the public service; and we now have the novel spectacle before us of a British subject (Mr. Crooks) traveling to the Prairie, with a passport from Governor Cass, said to be given by authority of the War Department, to inquire into the conduct of the Indian agent and commanding officer.

The Cass referred to was the same Lewis Cass, who,

as has been noted in Vol. I, received \$35,000 from Astor, for services not stated.

On January 14, 1822, Senator Johnson laid before the United States Senate a long communication (Doc. No. 10) regarding Astor's American Fur Company from Superintendent of Indian Trade McKenney, who wrote of "the keen and adventurous trader, skilled in the arts of deception and speculation, who is bent on making gains," and how "the consequences to the Indians are notorious; and these involve *bereavement, and suffering and death!*" McKenney referred feelingly to "the sight of that intellectual and moral degradation to which such a traffic necessarily dooms this unfortunate race of men," and described the trade as "essentially degrading in its character, and disastrous in its consequences, for it is the principal business of such traders to oppose everything like improvement. Such is the likeness which is stamped deep upon our Indians, and which may be traced out in all of the poverty and misery which invests so large a portion of their population. History details the causes; and these are to be found in the superior intelligence and keen avarice of the one party, and their disregard to political and moral order; and the unenlightened and dependent condition of the other." McKenney went on:

. . . It cannot be admitted as a just view of the Indian character and manners to pronounce upon his treachery and cruelty as the characteristics of his moral constitution. These wily acts are rather the results of his best conceptions of defence, and of preserving himself from the treachery which is practiced upon him; and the displays of his vengeance are but the ebullitions of a provoking temper. We see the Indian goaded into desperation by injustice and fraud, . . .

G. C. Sibley, U. S. Indian Agent at Fort Osage, wrote, on April 16, 1819, to Superintendent McKenney, denouncing the attempts, chiefly on the part of the American Fur Company, to bring about the abolition of the Government trading posts. With bitterness he wrote that "The clamorous cupidity of the traders will no longer be restrained; the Indian trade must be given up to 'individual enterprise'; to merciless men . . . to unprincipled pioneers of commerce of every shade and hue." If that should be done, he pointed out, an address along these lines might as well be made to the settlers: "Your property will be sacrificed; your families murdered, and your farms desolated; but these men insist upon their rights, and the fur trade must be left open to them. . . . What is the bleeding scalp of an infant, compared with the rich fur of a beaver skin?" (Doc. No. 60, pp. 57-59.)

All of these protests were of no avail; by a campaign of persistent misrepresentation, wire-pulling and presumably bribery, Astor finally succeeded in having the Government trading posts abolished, and thereafter could debauch and swindle the Indian tribes without any competition in trade from the Government. But while denouncing Astor, and justly so, for his extraordinarily revolting practices, the United States Indian Agents might well have denounced themselves for virtually defrauding the Indians in the purchase for the Government of vast areas of lands owned by the Indians. Superintendent McKenney stated that these lands had cost the Government an average of only *two cents an acre!* *Two cents an acre*, so it is written; the Indians were often paid this sum in merchandise. Much of the poverty, and nearly all of the debauchery, swindling, murders and massacres could be right-

fully charged to Astor, but the Government itself was responsible for some of the destitution in thus taking advantage of the unsophisticated Indians and wheedling away their valuable agricultural, timber and mineral lands for virtually nothing. And, as we have seen, capitalists then promptly stepped in and fraudulently secured great stretches of these timber and mineral lands, while sections of the working class were vainly petitioning Congress to give the workers cheap access to the soil, or to hold the land as national property, for the benefit of the whole people.

The bribery of Government agents, in all departments, by capitalists determined upon defrauding the Government, the Indians, inventors and the producers in general, was persistent. In Chapter I, Vol. II, facts have been given of the corrupt collusion of land office registers and receivers by which capitalists obtained immense tracts of land. Many of the Government agents among the Indian tribes were likewise corrupted, either by money or other means. Numerous Congressional investigations conclusively established this fact. An investigation, in 1842, of the frauds practiced during the previous decade or more upon the Cherokees, for instance, revealed such an elaborate system of fraud on the part of private contractors in the contracts for supplies, that a powerful attempt was made to suppress the report. The House Committee on Indian Affairs declined to yield to the influences demanding suppression, and published the report in full. (Report No. 271, February 25, 1843, Twenty-seventh Congress, Third Session.) The report of the investigation consisted of two sections, the first of which gave a description of the Cherokees. In its own report, the House Committee on Indian Affairs thus reported in part:

The second report relates to frauds alleged to have been committed upon the Government and the Indians, by certain subordinate agents in the public employment, and persons who had contracted with the Government to furnish subsistence to a number of tribes. This report presents a great amount of facts on the subject, showing that the most exorbitant prices were paid to the contractors who furnished the rations. The manner in which the contracts were made is pointed out, as well as the manner in which they were performed; and, unless the statements are false, it is evident that the Government was defrauded in the first instance, and the Indians in the second; and that in both the agents of the Government participated.

The facts contained in the report are very valuable. They expose the whole machinery of fraud, by which the Government and Indians have been so often and so greatly wronged. . . . The inquiry by Lieutenant Colonel Hitchcock appears to have been conducted with great intelligence and fairness. . . .

North and south, east and west, this defrauding of Government and Indians continuously went on.

#### THE SEIZURE OF MINERAL LANDS.

The thefts of mineral lands in Wisconsin, Illinois, Iowa, Michigan and other States were so scandalous a condition by the year 1840, that successive Congressional Committees were moved to report extensively upon them. The House Committee of Public Lands reported, on December 18, 1840, that large tracts of land, well known to be rich in mineral deposits, in the Northwest and elsewhere, had been fraudulently seized under nominal forms of law, and that deception, perjury and fraud were common.<sup>1</sup>

Two years later, on April 1, 1842, the House Committee on Public lands submitted a similar elaborate report, containing a petition from citizens of various

<sup>1</sup> Reports of Committees, Second Session, Twenty-sixth Congress, 1840-41, Report No. 1.

Western and Northwestern States complaining that the oldest and most valuable mines had been fraudulently seized "and that, too at the very time when the regular miners were occupying the same, and were deriving their livelihood from them." The committee described many cases of perjury or fraud in the seizure of lead and copper mines, and many facts were brought out showing that the bribery of Land Office officials and army officers was a regular part of the fraudulent operations. "Redress through the courts of ordinary jurisdiction," the report read "is slow and expensive. The persons aggrieved are generally men poor in purse, living by their labor, and they have not the means to contend in court with the wrongdoers."<sup>2</sup>

A report, dated January 27, 1846, of the Senate Committee on Public Lands, in answer to a resolution of inquiry of the United States Senate as to the character and disposition of the Lake Superior mineral regions, pointed out that that region "has within the two or three past years risen into great importance in the public estimation." The committee declared itself fully persuaded that its copper mines were very valuable, and that under proper management the mines might become a prolific source of income to the Treasury of the United States. The committee described the great frauds by which large areas of these mineral deposits, located on public domain, were passing into private hands.<sup>3</sup>

Frequent Congressional reports told of the fraudulent methods by which immensely valuable mineral deposits in the Northwest were robbed from the Indians, and the Government swindled. The House Committee on Indian

<sup>2</sup> Report of Committees, Second Session, Twenty-seventh Congress, 1841-42, Vol. ii, Report No. 484.

<sup>3</sup> Senate Documents, First Session, Twenty-ninth Congress, 1845-46, Vol. iv, Doc. No. 160.

Affairs reported, for example, on April 11, 1874, that a treaty, signed in 1854, between the United States and a branch of the Chippewa Indians gave that tribe a reservation in Michigan. "In 1869," the report continued, "some speculators in public lands discovered valuable minerals in the township, fifty-one [part of the Chippewa reservation.] They immediately went to work, while the secret remained theirs, to have it restored to market. They finally succeeded so far as to induce the Government to restore to market so much of the township, by far the larger and more valuable portion, as lies east of Huron Bay."<sup>4</sup> The report declared that the Indians had been unjustly dealt by and wronged, and the mineral lands fraudulently acquired. This was but one of many such reports dealing with the theft of mineral lands from that tribe and other Indian tribes.

#### THE COLOSSAL THEFTS OF TIMBER.

The huge fraudulent operations in the theft of timber from the public domain in Minnesota and other States and Territories, and the bribery of public officials to connive at those thefts, were another example of the widespread and permeating fraud.

Congress had passed an explicit act prohibiting deprivations on the public timber lands, and providing a penalty for each violation of the law of a fine of not less than triple the value of the timber cut, destroyed or removed, and a term of imprisonment not to exceed twelve months. This law was effectively ignored or evaded by individual lumber capitalists or lumber corporations. In a long report, under orders, to United States Secretary of

<sup>4</sup> Reports of Committees, First Session, Forty-third Congress, 1873-74, Report No. 396.

the Interior Robert McClelland, on February 12, 1854, James B. Estes, U. S. Timber Agent for Iowa, Minnesota and the Western district of Wisconsin, stated that in one Minnesota section alone—the Black River district—more than two hundred million feet of pine had been cut and carried away. “On the Black River,” wrote Estes,

are sixteen lumbering mills, all of which, until the last year have been supported by logs taken from the public lands.<sup>5</sup>

Upon the Chippewa and Red Cedar or Menominee rivers, the same state of waste exists and has been carried on for a number of years. There are also upon these streams, and their branches, eight saw mills which doubtless cut, as an average, more than two millions of feet a year. The amount of lumber cut at all of these mills is small compared with the actual waste upon the public lands, as there is now, and has been for years, a most extensive business of “logging” carried on to supply the lower markets of the Mississippi.<sup>6</sup>

Along certain rivers besides those named, Estes added, there were “nineteen saw mills, of steam and water power, which are engaged in cutting, and doubtless consume, forty or fifty millions feet of lumber yearly. In addition to this, there has been a large traffic in rafting logs down the Mississippi to the St. Louis and other markets below.”<sup>7</sup>

#### BRIBERY OF OFFICIALS.

This immense amount of lumber was almost all stolen. Usually the Government timber agents were bribed to wink at this colossal system of fraud, and at other times they were likewise bribed to sell (what they had no legal

<sup>5</sup> Executive Documents, First Session, Thirty-third Congress, 1853-54, Vol. xiv, Doc. No. 115:8.

<sup>6</sup> *Ibid.*

<sup>7</sup> *Ibid.*

authority to sell) permission or licenses, for insignificant payments to the Government, to cut timber from the public lands. Estes reported that he had instituted twenty-one indictments against some of these timber trespassers, and that among the number he had caused to be indicted, was Stunton, a former United States Timber Agent, "for being accessory to those trespassers, in having sold to individuals permissions to cut and waste."<sup>8</sup>

So intrenched was this system of enormous theft that when one honest Government official attempted to enforce the law, the whole lumbering interests sought to discredit him and his aim and bring about his removal.

Such a practice had long been the usual capitalist method of reprisal; we have seen how Astor, earlier in the century, caused officials who tried to stop his debauching and swindling of the Indians to be dismissed from office, and we have noted the same occurrence so repeatedly, that it might be said to be a fixed accompaniment of capitalist plans. Eternally boasting of their concern for "law and order" when labor unions declared a strike, and demanding the strict enforcement of the laws whenever that enforcement had to do with the working class, the capitalists, on all occasions, insisted upon their right to interpret laws as they willed, and evade or violate them if their self interest so pleased them.

Even further: not only did the lumber capitalists systematically seek to thwart the enforcement of the law by honest officials; all of the allied capitalists in the same region, and subsidized newspaper owners and henchlings joined in threatening, and often using, force to prevent the laws from being executed. This is clearly shown by the report made on February 18, 1854, by I. W. Willard, U. S. Timber Agent for Western Michigan,

<sup>8</sup> *Ibid.*, 9.

to United States Secretary of the Interior McClelland. Willard estimated that "there have been manufactured and shipped from there [the region north of Grand River and Lake Michigan] more than five hundred million feet of lumber within the last ten years, and more than seven-eighths of which was plundered from the public lands. . . . Besides this, the extensive tanneries of Chicago and Milwaukee have been largely supplied with bark from the forests of hemlock on the eastern shore of Lake Michigan."<sup>9</sup>

#### HONEST OFFICIALS MALIGNED AND PERSECUTED.

Willard caused thirty-seven of the trespassers to be indicted. Then, he wrote, "the entire timber interests commenced a systematic war upon me. The newspapers at Chicago, it is believed, at the instance of the trespasses, their attorneys and agents, contained attacks daily upon the agent, characterizing his conduct as oppressive in the extreme, and the 'Chicago Tribune' went so far as to counsel resistance by force. Meetings were held in the lumber regions, attended by lumber merchants from Chicago in some instances, at which violent harangues were made, and resolutions adopted, the temper of which was well calculated to excite a feeling leading to the most dangerous consequences."<sup>10</sup> In fact, the timber capitalists employed armed gangs to prevent the seizure of the stolen lumber, and fleets of lake ships were requisitioned to carry off the lumber by stealth before the Government agents could arrive to confiscate it.

What eventually happened to those thieves? Invariably they gradually succeeded in forcing the honest Gov-

<sup>9</sup> Doc. No. 115, 1853-54, etc., 16.

<sup>10</sup> *Ibid.*

ernment timber and land officials out of office. They fought the Government by force and strategy, and contested it in the courts. The plea was set up by them that timber was not a part of the land, and for years the courts solemnly considered the question whether a tree went with the real estate. Finally, the Supreme Court of the United States gravely decided that it did; that "the timber while standing is a part of the realty, and it can only be sold as the land could be, and unless lawfully cut, will remain the property of the United States."<sup>11</sup> A few of the underlings of the lumber capitalists were detained in jail; as for the capitalists themselves, they were allowed by the Government "to compromise" the cases against them, by payment of trivial sums. No poor man violating the law had ever been permitted to compromise with the Government; *he* had to face a court mandate and go to jail and stay there until his sentence expired. But the timber capitalists, like all other sections of the capitalist class, were allowed to keep the fruit of their thefts, and buy immunity from the penalties of the law by paying back a very small part of the proceeds. With these proceeds the timber thieves often then bribed legislatures for privileges and franchises, bought stocks and bonds, and real estate in the cities, built fine mansions and became the founders of some of the considerable fortunes in the United States. And continuously, decade after decade, the gigantic thefts of timber from the public lands went on unceasingly.<sup>12</sup>

<sup>11</sup> U. S. vs. Cook, Wallace's Reports, Supreme Court of the United States, xix: 591.

<sup>12</sup> The voluminous reports on the subject issued by the General Land Office in 1877, show that the most extensive timber depredations were still going on in Minnesota, Michigan, Wisconsin, Louisiana, Alabama, Florida and other States, and that Government timber agents were being bribed, or otherwise in-

These are a very few instances of the methods in the seizure of mineral deposits and timber throughout the Northwest long before, or at about the time, Hill appeared on the scene. In fact, it might be said that when he arrived in St. Paul, fraud as the foremost means to success, had already become traditional. The remarkable frauds by which many millions of dollars were stolen by Russell Sage and others in the projection and manipulation of the St. Paul and Pacific railroad were carried on under Hill's eyes. Very probably he learned his first great lesson from observing Sage's methods, and it was this very railroad that he and his partners obtained, after Sage had plundered, and practically abandoned, it.

#### THE HISTORY OF A RAILROAD HILL SECURED.

The history of this railroad was one of continuous corruption from its inception. The facts have been given in one of the chapters on the Sage fortune, but a recapitulation will be here summarized.

The attempted corrupt seizure of public lands in Minnesota began in 1854, when an act was corruptly lobbied through Congress indirectly giving nine hundred thousand acres of public domain to the Minnesota and Northwestern Railroad Company. The ensuing public scandal compelled the repeal of that act. But other acts were passed by Congress in 1857, by the same proved methods of bribery, indirectly, yet absolutely, giving a present of six million acres of public land in Minnesota to various railroad corporations.

One of these measures of Congress, approved on March 3, 1857, made a large land grant to the Territory

fluenced to connive.— See Senate Documents, Forty-fifth Congress, Second Session, 1877-78, Ex. Doc. No. 9.

of Minnesota for the benefit of the Minnesota and Pacific Railroad Company. The further history of this railroad has heretofore been specifically described; how its projectors were composed of notorious lobbyists and swindlers; how they corrupted the Minnesota Legislature to award them "as aid" several millions of dollars of State bonds; how they fraudulently sold and hypothesized large amounts of those bonds and stole the proceeds; and how, although they had received millions of acres of public lands, and millions of dollars of public money, yet, by 1859, they had not built more than a few miles of worthless track. More millions of dollars had been stolen by palming off stock on farmers, merchants and other investing dupes.

The robbery of these huge sums threw the railroad company into insolvency. Then in order to prevent defrauded creditors from recovering, Sage and his associates corrupted the Minnesota Legislature to pass an act reorganizing the company into two divisions, one division called the St. Paul and Pacific, and the other, the First Division of the St. Paul and Pacific Railroad Company. This legislative act, the courts held, entirely relieved the two new corporations from the debts of the old corporation, although it in nowise affected their land grant and franchise rights.

Having thus made it impossible for creditors to recover, Sage and company, on the plea that "further public encouragement was necessary to complete the railroad," lobbied an act through Congress in 1865, by which the land grant was increased to ten sections a mile for each mile of the railroad and its branches. They then mortgaged the railroad and its land grants to a syndicate of Dutch capitalists for \$13,380,000, of which

\$8,000,000 was immediately diverted by various fraudulent devices, and the railroad was again plunged into bankruptcy.<sup>18</sup> In 1875, Judge Dillon, of the United States Circuit Court, appointed a receiver for the railroad in the person of Jesse P. Farley.

#### HILL STEPS IN WHERE SAGE LEAVES OFF.

Hill and his associates stepped in where Sage left off. We have seen how Farley expended only about \$100,000 in constructing and repairing the railroad. So little was done, and the road was in such a disgraceful condition, that on March 9, 1878, the Legislature of Minnesota passed an act declaring that unless a specified number of miles should be built by certain dates, the uncompleted portions of the railroad, together with the land grants, rights, franchises and exemptions from taxation, should be at once forfeited to the State of Minnesota "without any act or ceremony whatsoever." From another direction, also, trouble was threatening. The Dutch bondholders were angrily clamoring to know what had become of their millions, and had appointed John S. Kennedy a New York banker, as their representative to bring suit.

Hill saw the opportunity of getting for almost nothing a railroad of five hundred miles, and a land grant of more than two and a half million acres. How did he manage it? According to Farley's repeated statements in subsequent court proceedings, Hill and Norman W. Kittson entered into a conspiracy with him (Farley) to betray the United States Courts, and at the same time Kennedy conspired with him to betray the Dutch bondholders.

<sup>18</sup> The specific facts, from the court records, have been related in the second chapter on the Sage fortune.

These allegations Hill denied, but Farley asserted and reasserted them in many court proceedings.<sup>14</sup>

#### THE METHODS BY WHICH CONTROL WAS OBTAINED.

Farley was an ignorant, almost illiterate, man who had seen some railroad experience in Iowa, and his cupidity was well known. That he was selected as a receiver, or rather recommended to the court, by Kennedy is definitely asserted in the court decisions.<sup>15</sup> Undoubtedly he was chosen by Kennedy in accordance with a surreptitious agreement, because it was known that he would prove a pliable tool. If Farley's own sworn statements may be accepted, he was to mismanage the affairs of the railroad so that the price of the bonds would be reduced, and he was to inform Hill and Kittson of every move that he made. At the propitious time, Hill and Kittson were to come forward and get control of the railroad. Neither Hill nor Kittson had the necessary money to do this, but according to Farley they were to give a two-fifths or forty-per-cent. interest to anyone supplying the funds. Farley contended that this agreement further provided that a three-fifths or sixty-per-cent. interest should be reserved for himself and for Hill and Kittson — one-fifth for each of the trio.<sup>16</sup>

The all important consideration was to build at once the extensions, in view of the act of the Minnesota Legislature threatening the franchise rights and land grant

<sup>14</sup> Farley vs. St. Paul, Minneapolis and Manitoba Railroad Company, Federal Reporter, xiv: 114-118; United States Reports, Vol. cxx: 303-318; Farley vs. Hill, Federal Reporter, xxxix: 513-522; Farley vs. Norman W. Kittson et al., Minnesota Reports, xxvii. 102-107.

<sup>15</sup> Federal Reporter, xxxix: 516.

<sup>16</sup> Farley vs. Norman W. Kittson et al., Minnesota Reports, xxvii: 103.

with forfeiture. But who would supply the funds for this construction? Kittson brought in two fellow-Canadian friends—George Stephen, manager of the Bank of Montreal, and Alexander Donald Smith, long associated with the Hudson Bay Trading Company. Where Stephen and Smith obtained the millions of dollars which they now advanced, has never been clearly shown. It was long persistently charged, by at least one responsible member of the Canadian Parliament, among others, that Stephen, Smith and one Angus withdrew \$6,000,000 from the Bank of Montreal with which to finance the enterprise, without the knowledge of their co-directors. So far as documentary proof of this allegation is concerned, none has been found; it may exist, but we have been unable to discover it.

#### HILL AND HIS CLIQUE GET THE RAILROAD.

The campaign to get control of the railroad was now fairly complete. The various properties embraced in the railroad company's title were mortgaged in several mortgages amounting, in the aggregate, to \$28,000,000 of bonds. Hill and his associates bought in these \$28,000,000 of bonds at an absurdly low price, in some cases of large issues, at only three per cent. of their value. The range of prices was from thirteen and a quarter, to seventy-five per cent., of their par value.<sup>17</sup> But Hill and his partners were not required to pay in immediate cash. The bonds were chiefly bought on the understanding that they were not to be paid for until the railroad was reorganized.

Such actual money as was expended was spent in a busy effort to construct the extensions, and thus fore-

<sup>17</sup> *Federal Reporter, xxxix: 516.*

stall the forfeiture law. "Under these circumstances," the court record states, "the receiver, at the instance of Mr. George Stephen and other large bondholders (James J. Hill, Donald A. Smith and Norman W. Kittson) hurried to court, and got an order on April 18, 1878, to get authority to issue debentures to complete the extensions."<sup>18</sup> Under the authority of the court, Farley, out of the funds advanced by the Hill-Stephen combination, built one hundred and twenty-five miles of railroad at an aggregate cost of \$1,016,300. This extension gave an unbroken railway connection between St. Paul and the Canadian system of railway in Manitoba.

Only one thing more was necessary to get the whole railroad line out of the jurisdiction of the Court into absolutely private possession. This was a decree of foreclosure. On April 11, 1879, a final order of foreclosure was decreed, and on June 14, 1879, the road was sold to the St. Paul, Minneapolis and Manitoba Railroad Company. This company Hill and his associates had organized a month before the sale, for the express purpose of buying the railroad under foreclosure. The entire cost of the main lines and extensions of the St. Paul and Pacific, both divisions, was \$6,780,000. But the Hill coterie were not called upon to pay this sum in money. They were allowed to turn in receiver's debentures and bonds as payment for the purchase price.

#### THEY BUY IN AT A "BARGAIN SALE."

Farley testified subsequently that the railroad thus sold for \$6,780,000 was worth, at the very least, \$15,000,000,

<sup>18</sup> John S. Kennedy et al. vs. The St. Paul and Pacific Railroad Company et al., Dillon's Circuit Court Reports, 1879-80, v: 527.

thereby confessing his criminal complicity in being a party (as he swore) to a clandestine agreement by which such a sale had been fraudulently arranged for in advance. In the suit, in 1880, of Wetmore vs. the St. Paul and Pacific Railroad Company, to set aside the sale, Judge Miller estimated the five hundred and sixty-five miles of railroad and the 2,586,606 acres of land to be worth \$20,000,000 or more.<sup>19</sup> In fact, from a part of the land grant alone, aside from the railroad property itself, Hill and company obtained more than twice the sum that they had paid for the entire property. Immediately after the foreclosure sale, they sold the greater part of the land grant for \$13,068,887.

A few years previously Hill was a poor man; perhaps he had a few thousand dollars. The operation described at once made him a millionaire. He and his associates not only held the railroad's bonds, but they apportioned the stock among themselves. Hill and Kittson each received 57,646 shares of stock, and the other members of the combination their share. In addition, they otherwise made large profits.<sup>20</sup> As soon as the railroad was secure in their possession, they began the accustomed process of hugely watering its stock.

#### THE RECEIVER SWEARS THAT HE WAS IN COLLUSION.

Farley was bitterly disappointed at receiving none of the spoils. So determined was he to get what he claimed was his allotment, that he did not mind the publicity of his betrayal of his trust as receiver. He brought a suit against Kittson, Hill, etc., in the Minnesota Supreme Court, alleging that by agreement he was to receive one-

<sup>19</sup> Dillon's Circuit Court Reports, 1879-80, v: 531.

<sup>20</sup> United States Reports, Vol. cxx: 308.

fifth of the capital stock of the railroad, and one-fifth of all other securities and property acquired by Kittson, Hill and the others of the combination, as a result of his collusion. It was a very audacious ground upon which to base a complaint. Farley could produce no written agreement, and Judge Gilfillan, in October, 1880, decided that he had not proved his case.<sup>21</sup>

At the same time, Farley sued the St. Paul, Minneapolis and Manitoba Railroad Company in the United States Circuit Court. The attorneys for the defense, it is interesting to note, based their main plea for nonsuiting the case on the ground that a court official who had betrayed his trust had no standing in court. In this particular plea Judges Treat and Nelson concurred. Their decision, rendered in 1882, said in part:

Courts will not and ought not be made the agencies whereby frauds are in any respect recognized or aided. They will not unravel a tangled web of fraud for the benefit of anyone enmeshed therein through whose agency the web was woven. Especially must that be a rule where a trusted officer of a court, whose position is both advisory and fiduciary, seeks its assistance to compel alleged confederates to share with him the spoils acquired through his concealments and deceits, which he admits were deemed by his confederates and himself necessary to their success through his betrayal of his trust.<sup>22</sup>

#### THE COURT VIRTUALLY CONFIRMS HIS CHARGES.

Then followed parts of the court's decision practically confirming Farley's statements that he had entered into a conspiracy of collusion with Hill, Kittson, Stephen, Smith, etc., on the one hand, and Kennedy on the other. "The plaintiff," continued the decision,

<sup>21</sup> Minnesota Reports, xxvii: 102-107.

<sup>22</sup> Federal Reporter, xiv: 114-118.

"conceived a scheme to wreck the vast railroad interests which it was his duty to protect. Through a betrayal of his trust under such circumstances, according to his version of the facts, these vast railroad properties have been secured, and a profit realized of \$15,000,000 or more."<sup>23</sup>

The court went on to say that for his betrayals, Farley was to get a portion of the spoils, and the ground of his suit was that his associates had repudiated the fraudulent contract. As they refused to divide the spoils, Farley had sought the aid of the courts to compel them—a very strange demand, the decision said, to bring into any court. As for Kennedy's part in the transaction, the decision set forth, "It is charged, however, and for the purposes of the case may be admitted, that Mr. Kennedy, agent of the Amsterdam Committee, was advised by the plaintiff [Farley] during the progress of the scheme that he, the plaintiff, was secretly betraying his trust."<sup>24</sup> The decision concluded by saying that Farley's cause of action was based on "inherent turpitude," and that the courts would not recognize any such action as valid.<sup>25</sup>

#### FARLEY INSISTS UPON GETTING HIS SHARE OF THE SPOILS.

Farley carried the case to the Supreme Court of the United States. That court, in October, 1886, held that the plea put forth in the lower court was unsatisfactory, in that it had not established any question of fact. The case was remanded with instructions for a new trial.<sup>26</sup>

The suit, therefore, came up again in the United

<sup>23</sup> Federal Reporter, xiv: 117.

<sup>24</sup> Ibid.

<sup>25</sup> Ibid., 117.

<sup>26</sup> United States Reports, Vol. cxx: 303-318.

States Circuit Court at St. Paul, this time in September, 1889. This court's statement of the case reads:

In 1876, complainant, Farley, was, by appointment of this court, receiver of the property of the St. Paul and Pacific Railway, and also general manager of the lines of the First Division of the St. Paul and Pacific Railway Company. . . . Several series of mortgage bonds were outstanding, largely owned and held in Holland. Complainant alleges that he and the defendants, Kittson and Hill, entered into an agreement for the purchase of these bonds, or a majority thereof, and the use of the same in the purchase of the road in foreclosure of the mortgages. The defendants were to furnish the funds necessary therefor, and the complainant to furnish facts, information and assistance. Certain it is that the bonds were purchased by the defendants, Hill and Kittson, with two associates, foreclosures consummated, and the railway properties acquired.<sup>27</sup>

The question was, the court declared, whether such a contract had been made, and if so, whether it was against public policy.

Farley testified that an oral contract had been made, and he was corroborated by his clerk, Fisher. Hill denied it, and as for Kittson, he had died before his testimony could be taken. Various letters of Farley's correspondence, with the banking firm of John S. Kennedy and Company were produced in court and were incorporated in the court record. One of these, written on May 23, 1879, by Farley to John S. Barnes, a member of the Kennedy firm, read:

Since the election of Bigelow and Galush, as Directors in the New Company, Men of no Money, railroad experience or Influences, And myself left out in the cold, I am forced to the conclusion that My time and claims on the St. Paul and Pacific is Short, I did expect better things of Hill and Kittson. I had a talk with Jim Hill last Knight. He disclaims any intention on his part to ignore my claims, but he is such a Lyer can't be-

lieve him. It is a matter of astonishment to every person in St. Paul to see the way Jim Hill handles Mr. Stephens. He is notoriously known to be the biggest liar in the state. Mr. Kittson told me time and time again that Jim Hill is the worst man he ever saw. Upham, P. H. Kelly, Thompson and in fact every citizen in St. Paul if they would speak their sentiments would all tell the same story. You must not blame me if I should try to get even with Jim Hill before I leave here.<sup>28</sup>

In deciding the case, Justice Brewer said that he did not believe such a contract had been made, and he based his belief on this singular and highly amusing ground of reasoning: "Is it probable," he wrote of Farley, "that a man so situated, with his years of experience in railroad foreclosures, and owing such a duty to the bondholders, would enter into a secret arrangement with third parties for the purchase of the bonds—an arrangement which made it to his interest to reduce the market price of bonds? Is it probable that such a man would deliberately cloud the record of his life?" etc., etc.<sup>29</sup> Of course not.

Again Farley carried the case to the Supreme Court of the United States. This court, in October, 1893, upheld the decision of the Circuit Court, declaring that Farley had not proved his claim.<sup>30</sup> After thirteen years

<sup>28</sup> Federal Reporter, xxxix: 521. One of Hill's eulogists, in a "biography," very effusive on the whole, published in the New York "Tribune," issue of April 7, 1907, thus wrote of Hill:

"Mr. Hill has a reputation in the Northwest as a very hard man in business. . . . He has never had patience with any one who could not practice unflagging industry and self-denial. Out of this same trait has grown the conviction among railroad men that 'Jim' Hill is the hardest man in the business to work for. For himself there has never been a quitting time. Even now he is busy nights and Sundays when there is work to do. It has always been a short shrift for those in his employ who could not forget that there were such things as office hours and holidays. . . ."

<sup>29</sup> Federal Reporter, xxxix: 516.

<sup>30</sup> United States Reports, Vol. cl: 572-577.

of legal contest, Farley was unable to collect a single dollar.

#### HILL AND HIS PARTNERS BECOME GREAT DIGNITARIES.

Of the men whom Farley alleged conspired with him, or who were alleged to have profited by his betrayal of his duty, Hill became the great multimillionaire autocrat of the Northwest, and Stephen and Smith obtained peerages from the British Crown — Stephen as Lord Mount Stephen, Knight of the Grand Cross of the Royal Victorian Order, etc., and Smith as Lord Strathcona, Knight of the Order of St. Michael and St. George, etc.<sup>31</sup> Kennedy rose to be a multimillionaire; when he died on October 31, 1909, he left a fortune estimated at from \$30,000,000 to \$60,000,000 which included \$7,000,000 worth of stock in the Great Northern Railway, mostly obtained at the very time he betrayed his clients, the Dutch capitalists. He also held \$10,000,000 of Northern Pacific Railway stock, secured at about the time when the Northern Pacific Railroad Company, as we shall see, was bribing land grants through Congress and stealing vast mineral deposits from the public domain. In the latter years of his life, Kennedy gave a few millions for "philanthropic purposes," and was exalted as "great philanthropist." His will revealed that he bequeathed tens of millions to philanthropic and educational institutions.

This by way of passing explanation. To continue the story of the Hill fortune, however: Hill and his associates secured more franchises and special laws, built extensions, and formed the Great Northern Railroad out of the railroads that they had obtained and the exten-

<sup>31</sup> See "Burke's Peerage."

sions which they constructed. The Legislatures of the Northwest were deluged with bribe money, although it was never specifically proved that Hill was the distributor. The whole newspaper press was subsidized, and towns, cities and counties were prevailed upon to grant endowments and exemptions of all kinds. So rife was this corruption, that, in 1883, some protesting members of the Minnesota Senate introduced this resolution which was adopted:

WHEREAS, The acquisition and holding of large interests in land-grant railroads, public contracts and other schemes receiving aid from the General Government, by high Federal officials, places such officials in positions where they cannot be true to the public interests, without a sacrifice of self interest; and

WHEREAS, Money thus acquired by public men is ordinarily used to corrupt the springs of political influence, and prevent the expression of the real sentiments of the people, and,

WHEREAS, It is alleged that in the preceding Senatorial election, certain members of this Legislature have been improperly and corruptly influenced by promises of money, public office or other valuable considerations, for a certain candidate for United States Senator, therefore,

The resolution called for a Special Investigating Committee of Seven.<sup>22</sup> The report of this committee, while of a whitewashing and partisan nature, indicated an appalling state of corruption.

The significance of this self-admitted corruption of the successive Minnesota Legislatures, will be better understood by a consideration of one among a large number of characteristic episodes.

On March 1, 1877, when the popular indignation against the robberies and usurpations committed by Russell Sage and his band was at its height, the Minnesota Legislature had enacted that the St. Paul and Pacific

<sup>22</sup> Minnesota Senate Journal, 1883: 29.

Railroad Company should have no right "directly or indirectly" to any land upon which settlers had settled in good faith. Inasmuch as a certain part of the railroad was not completed until November, 1878, the terms of the act of Congress of June 22, 1874, were violated. This act had extended the time of completion to March 3, 1876; otherwise the land grant was to be forfeited.<sup>33</sup> But the Supreme Court of the United States conveniently decided that a mere breach of the conditions of the act of Congress did not of itself work a forfeiture of the grant; either Congress or the Minnesota Legislature had to take some specific action declaring the forfeiture.<sup>34</sup> The essential object, therefore, on the part of Hill and his associates was to prevent Congress and the Minnesota Legislature from passing such a forfeiture act; and they were successful.

#### THE EVICTION OF DAKOTA SETTLERS.

After Hill had secured control of the St. Paul and Pacific Railroad, under the name of the St. Paul, Minneapolis and Manitoba Railroad, and had changed the title to that of the Great Northern Railroad, he claimed in 1884, sixty-five thousand acres of land in Dakota. Before 1884 no claim had ever been set up by the company to that land. The claim was based upon the old land-grant act of 1857, passed when Dakota was a part of Minnesota. For years the country along the Red River in Dakota had remained a wilderness until farmers settled there, and converted it into one of the richest agricultural regions in the West. The General Land Office

<sup>33</sup> Senate Executive Documents, First Session, Fifty-second Congress, 1891-92, Vol. v, Doc. No. 67.

<sup>34</sup> Case of St. Paul, Minneapolis and Manitoba Railroad Co. vs. Charles and James Greenlaugh, March 2, 1891.

took it for granted that this land did not belong to the railroad company, and had given full titles to the settlers.

In November and December, 1891, intense excitement prevailed among the farmers in the Red River Valley. An order had been issued by the Great Northern Railroad Company compelling farmers, by December 15, to vacate lands belonging to the company. This order was based upon a decision of the Supreme Court of the United States declaring that the company's land grant extended to the Territory of Dakota — now the States of North Dakota and South Dakota.<sup>85</sup> This decision gave the company some of the most fertile and valuable areas in Dakota. Unquestionably, under the acts of Congress, these lands, even if the original grant had extended west of the Red River, had long since been forfeited. The Supreme Court of the United States, however, by its successive decisions, negatived the explicit acts of Congress. The Great Northern Railroad thereupon began the eviction of farmers in the odd numbered sections within the twenty-mile indemnity limit of its land grant. This order of the company was like a thunder-clap to the settlers. Many had resided on the land for twenty years.

The settlers appealed to Congress. That body passed an act to allow the railroad company to select an equal area of lands in lieu of those settled upon. This act, although apparently passed for the benefit of the settlers, was precisely what the Great Northern Railroad Company was waiting for. The lands relinquished by the company were non-mineral; the act of Congress therefore, provided that the lands in exchange that it should select elsewhere should be non-mineral. But when the exchange was made it was discovered that the company

<sup>85</sup> United States Reports, Vol. cxxxvii: 528.

had selected the most valuable timber lands in Idaho, Montana and Washington — lands worth far more than the Dakota lands — and that on some of these lands rich mineral deposits underlay the timber. The Commissioner of the General Land Office at that time was, as we have noted in a previous chapter, T. H. Carter. His record was so very satisfactory to Hill, the ruler of the politics of the Northwest, that, a few years ago, the Montana Legislature was allowed to send Carter to the United States Senate, of which he is now a distinguished member.

#### HILL'S IRON ORE DEPOSITS.

Hill personally owns immense iron-ore deposits in Minnesota. These deposits are currently estimated to be worth at least a billion dollars. In 1906 he leased what was really a small part of these deposits to the Steel Trust for a period of twenty-five years on a royalty basis, the payments amounting, in the aggregate, to tens of millions of dollars. How he obtained these deposits is not told clearly in official documents. We have seen in previous chapters, that the original land grants made by Congress, corrupt as were the circumstances of the passage of the various acts, were never intended to cover coal, iron or other mineral deposits. But by fraudulent constructions of the laws, made by Land Commissioners and the Courts, coal and iron lands were determined not to be included within the meaning of the word mineral.

According to Senator Pettigrew's version, Hill secured large iron deposits in Minnesota by private purchase. For this he had ample capital, reaching hundreds of millions of dollars. This money was derived from the

St. Paul and Pacific Railroad transactions, successive illegal stock waterings, and the extortionate profits from his railroad system — profits terrifically oppressive to the people of the Northwest. Senator Pettigrew writes of the purchase by Hill of these iron deposits: "The iron underlay forests of pine, and the lumber company had built a lumber road to get out the pine, and having cut the pine off, sold the road and the land to Mr. Hill at what they considered a very exorbitant price, but it turned out that underlying the land were vast deposits of iron ore. I think Mr. Hill estimates the mines at five hundred million tons."<sup>36</sup> If this account is correct, it may safely be assumed that Hill knew the character of the land before he bought it; judged by business standards it was a very astute transaction.

This assumption is borne out by the facts revealed in a suit brought at St. Paul, in January 29, 1901, by H. W. Pearson, a geologist of Duluth, against Hill and the Great Northern Railroad Company. The sum involved in the proceeding was stated to be not less than \$14,000,000 which was alleged to be the value of

<sup>36</sup> Related in a personal letter to the author. In Chapter ii, Vol. ii, of this work ("The Seizure of the Public Domain"), we have seen how large areas of land, granted to canal corporations as nominally swamp lands, were so fraudulently surveyed as to include some of the very richest copper deposits in the Northwest. The same was true of iron ore deposits in some of the grants to railroad corporations. It cannot be said that the beneficiaries of these frauds were unaware of the fact that copper and iron ore deposits were on the lands thus fraudulently acquired by them. A number of reports by Government geological experts had described the extent and location of these mineral deposits. One voluminous report, in particular, was that by J. W. Foster and J. D. Whitney, United States Government geologists. It was issued in 1851, and gave full descriptions of the character of the mineral lands. It especially described the iron ore deposits of the Lake Superior region as being of an almost unprecedented state of purity.—U. S. Senate Documents, Special Session, Thirty-second Congress, 1851, Vol. iii, Doc. No. 4.

property held by Hill and his railroad, and taken by them after its discovery by Pearson. In his complaint Pearson averred that these mineral deposits were located by him under a contract with Hill by which he, Pearson, was to have a share in the profits. Pearson further alleged that he had been employed by Hill, in 1896, to locate coal and iron deposits in the States of Washington and Montana; that he found the deposits; that under his direction the Hill interests secured thousands of acres of valuable land, and that when he presented his claim for a share, he was cast aside. Of the final disposition of this suit no record appears in the available court documents.

If, however, the methods used by the Great Northern Railroad in appropriating mineral lands have been the same as those employed by the Northern Pacific Railroad, then their nature is clear. This latter railroad was not originally owned by Hill, but he and those allied with him, now hold its ownership. "The net outcome," says Moody, "of the Northern Pacific corner, and of the Northern Securities incident<sup>37</sup> has been that the Hill interests remain in undisputed control of the three vast railroad systems which now go under the name of the Hill properties, viz: The Northern Pacific, the Great Northern, and the Chicago, Burlington and Quincy, constituting in the aggregate, over 18,000 miles of railroad lines.<sup>38</sup>

#### THE NORTHERN PACIFIC RAILROAD.

The Northern Pacific Railroad was chartered in 1864. By act of Congress of July 2 of that year, it was given

<sup>37</sup> Described in one of the chapters on J. Pierpont Morgan.

<sup>38</sup> "The Romance of the Railways," "Moody's Magazine," issue of July, 1908: 17.

the right of way through the public domain, the right to take from the public lands material for construction, and an immense area of public lands in Montana, Idaho and other sections of the Northwest. These enormous privileges and grants were given to it at the identical time when the Union Pacific Railroad and other land-grant and subsidized railroad companies were bribing Congress. As we have seen, the Union Pacific Railroad disbursed nearly \$436,000 in securing the passage of the act of July 2, 1864, increasing the Government money subsidy granted to it and doubling its land grant.<sup>89</sup> Doubtless the passage of the Northern Pacific Railroad act was effected by the same means. In all, the Northern Pacific Railroad obtained about 57,000,000 acres of public domain.

By the definite terms of this act however, all mineral lands were expressly excluded from this grant, although the term mineral (to repeat an explanation already given) was later fraudulently construed, in the case of all land grants, not to include iron or coal. The Northern Pacific Railroad was, therefore, endowed with a land grant forty miles wide running across the continent, west of the Missouri River. This land grant included vast stretches of the very richest timber lands.

The ensuing history of the Northern Pacific Railroad was the same as that of all other railroads. It was plundered by successive groups of capitalists. One of the capitalists powerfully controlling the Northern Pacific Railroad for some years was Henry Villard, a man of remarkable character and enterprise. Different factions of capitalists fiercely fought him, and sought to

<sup>89</sup> Reports of Committees, Credit Mobilier Reports, Forty-second Congress, Third Session, 1872-73, Doc. No. 78: xviii. See the second chapter on the Gould fortune, Vol. ii of this work.

oust him from the control of the Northern Pacific Railroad and other railroads in the Northwest. In his "Memoirs," Villard tells of a formidable combination arrayed against him in 1889, composed of Hill and large financial corporations. Four years later Villard was accused by his opponents of having profited enormously from buying, in his individual capacity, "semi-worthless" railroads in Manitoba and elsewhere, and then "unloading" them, at exorbitant prices, upon the Northern Pacific Railroad, which, corporatively, he controlled. So far as the court records indicate the facts, these allegations seem to have been part of a plan to discredit Villard, and cause his overthrow; when the charges were passed upon by the courts, Villard was personally vindicated. But that the railroad's treasury had been looted by previous groups of capitalists is absolutely clear; contesting factions were continually charging the other with the responsibility for promotions, extensions and enterprises largely devised for the special purpose of appropriating large amounts in loot.<sup>40</sup> So contradictory and involved were these charges and recriminations that it is not easy to determine the relative, much less the absolute, truth. Certain of Villard's capitalist opponents were especially notorious for their evil records; so much so that charges coming from them were received with distrust and cynical skepticism, in general, and with dismissal, on the merits, from the courts in particular.

<sup>40</sup> Such charges were characteristic, as we have so frequently stated, of capitalist methods of warfare upon one another. Magnates in power were violently assailed so as to discredit and dislodge them. The spectacle was frequently presented of the "leading" and most "respectable" financiers ferociously denouncing one another as liars and thieves. These virtuous outbursts, it is needless to say, arose from no moral indignation; the ulterior purpose was to crush the other, if possible, and seize property and power.

For years the contest to dislodge Villard from control was fiercely carried on.

#### GREAT THEFTS OF MINERAL LANDS

During the time that various capitalists controlled the Northern Pacific Railroad the thefts of mineral lands were so extensive that both Congress and the State of Montana were constrained to investigate. The people of Montana were greatly agitated over the railroad's claim to lands containing the very richest gold, silver, lead and copper mines, particularly the great copper deposits for which Montana was famous. In fact, the people of the entire West were deeply aroused, for if the courts should finally sustain the action of the Northern Pacific Railroad, then all of the other Pacific railroads could likewise claim all of the mines and mineral deposits within their land grants, consisting of odd numbered sections. Already, in 1890, the Supreme Court of the United States had provisionally handed down a decision sustaining the Northern Pacific Railroad's claim that *only such mineral lands as were known to be mineral at the date of the land grant* were to be excepted from the land grant.

The trans-Mississippi Congress, meeting at Denver, in May and October, 1891, adopted resolutions declaring:

WHEREAS, This dictum of the Supreme Court, if it should become law, would invest the Pacific railway companies holding grants of land from the Government with a vast number of the best mines discovered within the limits of said grants by prospectors and miners, who have located thereon in good faith and developed and sold therein in the honest belief that said grants were limited to agricultural lands only, as declared in the acts of Congress making them; and

WHEREAS, The citizens of the United States have invested millions of dollars in the development of mines on said lands which have been discovered subsequent to the date of said grants; and

WHEREAS, The consequences of this newly made construction of said grants must be the confiscation of private property and the spoilation of individuals in behalf of said railway companies on a scale so vast that history affords few parallels thereto, and to the bringing of actions to recover the value of ores heretofore mined from said lands, which, if successful, must reduce a large number of our citizens to want and beggary; and

WHEREAS, If said construction of it becomes the law of the land, it will take vast regions of mineral land out of the market, either for future explorations or purchase, to the manifest injury of the people. Wherefore, be it

*Resolved*, That the Congress protests against any construction of the statutes of the United States which will result in such a system of wholesale confiscation, and the consequent enrichment of great combinations already enjoying the bounty of the government, and calls upon the representatives of the people in Congress assembled to take such prompt and immediate action as may be within their immediate constitutional prerogative to destroy this threatened danger.

At the same time Martin Maginnis, Mineral Land Commissioner of Montana, reported to Governor Toole that the

vast land grant of the Northern Pacific Railway Company stretches from the eastern to the western boundary of the State of Montana in one broad belt which, including indemnity lands, is nearly one hundred and twenty miles wide and over seven hundred miles long. The Congress which created this corporation gave to it one-half of the lands within these limits, carefully excluding all mineral lands, and emphasizing their reservation from the grant by giving to the company indemnity for such lands as might turn out to be mineral. Little prospecting had then been done; very little was known of the character of these lands. All the discoveries of mineral land had yet to be made, the mines upon them to be developed and these to be finally segregated from the land grant of the company, and the company compensated therefor with other lands not mineral in their character.

Nothing would seem to be plainer than the fact that the reservation went with and was part of the grant; and that future exploration, survey and classification would be necessary to define the non-mineral lands which would become the property of the company and the mineral lands which were reserved to be forever open to the prospector and the miner, under the mining laws of the United States.

If the road could have been definitely located and built as rapidly across the continent as the charter was pushed through the Congress, it would have been left to the future to prove the character of the lands, and if the company at that time by virtue of a finished road claimed all the lands, surveyed and unsurveyed, unexplored and not prospected, that company would simply have taken them all; for the mineral discoveries have all been made since then. It was not until later that the audacious claim was set up that lands not then known to be mineral, or not known to be mineral at a certain date, were therefore not mineral, and by consequence passed to the corporation.<sup>41</sup>

Mineral Land Commissioner Maginnis then dealt extensively with the long delay of the projectors of the Northern Pacific Railroad in building the railroad — a delay, he wrote,

by which it failed in one of the primal purposes of its creation, and in fairly earning that part of its endowment which was intended to secure its completion at least fifteen years before it came to us, who, while wearily waiting its advent, had occupied, subdued and partially developed the country without its assistance. It was never dreamed that the railroad company would set up at any time in its existence a claim to the mineral lands, which were excluded from the grant, in the granting act itself, by specific reservations intended to run with and be as perpetual as the grant itself.

Congress had created no tribunal to decide which were mineral or which non-mineral bearing lands. It left that to the executive department, which has the control of the sale and survey and classification of all the public lands. A large portion of the land

<sup>41</sup> Annual Report of the Mineral Land Commissioner for the State of Montana, for the Year Ending November 30, 1891. Helena, Montana, 1892: 3-4.

inside lines of the grant has never been surveyed or in any way examined, prospected or classified by the government. The labor and toil of the voluntary prospector and the miner has alone made known which are mineral districts and which are not.

Suddenly the astounding claim was set up that all the portions of the country which had not been voluntarily examined by the individual prospector, acting under no agency of the Government but at his own expense, and therefore proven to be mineral at a certain date, were to be considered non-mineral and to become the property of the Northern Pacific Railway Company in spite of the fact that the charter itself said that such lands never should be, and that the company should take other lands in lieu thereof in order to make up the quota that it claimed.

It would seem that neither in law nor equity could there be any warrant for such a claim, that the company could not obtain by indirection those lands that were directly reserved from the grant and held open to the prospector and the miner under the well-defined policies of the United States as laid down in its laws governing the disposition of mineral lands. But under certain constructions of certain cases in some of the courts, the company did set up its claims not only to the mineral lands but to the minerals which had been mined. It contested the applications for patents to mines upon odd sections and sued for the recovery of ores taken from the same.

The people of the State became universally alarmed at a course which threatened such calamity to its interests and recognizing the fact that poor prospectors and miners, or rich ones either for that matter, could not successfully contest with such a powerful corporation, the State determined to make the cause of its people its own cause, and with that object in view, the Legislature passed the following law:<sup>42</sup>

Here followed the provisions of that law, the object of which was to safeguard the interests of the individual miners. Notwithstanding the passage of this act, the lower courts, many of the judges of which had been railroad attorneys, or who had been elevated to the bench by railroad influence, gave decision after decision in

<sup>42</sup> Annual Report of the Mineral Land Commissioner, etc., 5-6.

favor of the Northern Pacific Railroad. The chief opponents of this railroad were large copper corporations, such as the corporation controlling the great Anaconda copper mine, then valued at \$25,000,000. These corporations had themselves obtained their mines largely by fraud. But individual miners and prospectors, in nowise connected with any fraudulent operation, were deeply stirred, and in turn the mass of resident people.

The House Committee on Public Lands of Congress took up the matter. Villard, as president of the finance committee of the Northern Pacific Railroad was busily in evidence with his attorneys. "Mr. Henry Villard," stated the report of Mineral Commissioner Maginnis,

next engaged the attention of the committee. He also claimed that the company was now completely vested with the title of the disputed mineral lands. He considered that question as no longer open. The Supreme Court could only affirm the numerous decisions already rendered in favor of the railway company. The property rights of the corporation were beyond the reach of legislation; but he was anxious to have this controversy settled. It was injuring the road and the mining industry and he was ready to offer a compromise on the part of his company. He was authorized to submit a proposition to the committee: That the company would agree to this bill, to the survey and classification, and would deed back to the United States all lands so excepted as mineral: *Provided*, That the company should be recompensed therefor with other lands, either by the extension of present indemnity limits or by selection from the even as well as the odd sections within the grant.<sup>48</sup>

The House Committee on Public Lands reported that the Northern Pacific Railroad had included in its land grant the richest and most extensively developed mines in Montana and Idaho. "Within this grant are also included millions of acres of land not yet entirely or at all

<sup>48</sup> Annual Rep., Mineral Land Com., etc., 28.

explored for minerals but which . . . probably contain mineral deposits as valuable as any yet discovered." The railroad company, the committee set forth, claimed that the legal construction of the act of 1864 gave the company all lands within the grant, *not known to be mineral at the date of that act*, or at least at the date when the company filed the map of its route.

"This," the report went on, "seems to the committee a most extraordinary claim. . . . Many of the most valuable mines in Montana, and most all of those in Idaho, have been discovered since 1882. The company, not satisfied with its immense land grant and other special privileges given by the Government, now seeks, upon what is at best but a technicality, to take from those who have discovered and developed them, the very mineral lands expressly excepted from the grant."<sup>44</sup>

Meanwhile, however, the Northern Pacific Railroad had gained its point. While time was being consumed in talk and appeals from court decisions, this is what was done, according to Senator Pettigrew: "The whole force at Washington in the Land Department at Washington was engaged exclusively in rushing through these patents for the Northern Pacific, and I think, if you will look up the court records, you will find that the judge objected to an item of about \$3,000 brought in by the receivers, which was paid to a very special friend of the Land Commissioner as an attorney fee to hasten the issue of these patents, and thus, the Northern Pacific acquired title to vast areas of exceedingly valuable mineral lands in the States of Montana, Idaho and Washington. The Land Commissioner was no doubt corrupt in this connection, and there is no doubt that the North-

<sup>44</sup> House Reports, Fifty-second Congress, Second Session, 1891-92, Vol. v, Report No. 1145: 1-4.

ern Pacific officials really purchased his activity in getting those patents.

"Afterwards," ex-Senator Pettigrew continues, "Congress passed a law, some time, I think, in 1898, providing for inspectors to inspect the lands along land-grant roads, and determine which were mineral, and which were not, so that mineral lands should not be patented after that date; but the mischief had nearly all been done."<sup>45</sup>

Pettigrew's statements, however, are disputed by friends of Villard claiming to have a knowledge of the matter. They deny that the Northern Pacific thus obtained patents. No patents, they assert, were obtained by the railroad or were granted to it during the prevailing agitation. They add that the Commission provided for by Congress was authorized to issue patents for non-mineral lands only. If corruption was used to get mineral lands under the pretext of being non-mineral, it is unlikely that Villard personally sanctioned it.

At approximately during this time the Northern Pacific Railroad, on August 15, 1893, went into bankruptcy.

<sup>45</sup> Related in a personal letter to the author. The fact that powerful members of Congress were, at the same time, paid attorneys for land-grant railroads, and acted in that capacity in Congress, caused the introduction of a bill in the United States Senate, on June 1, 1886, by Senator Beck of Kentucky, making it unlawful for any member of Congress to act as the attorney or agent for any railroad which had received a land grant from Congress. In the debate on his measure on June 22, 1886, Senator Beck urged: "Will any gentleman insist that any man who is the attorney of any railroad, any man who is retained in any way by any of these roads, when these great questions involving perhaps fifty or a hundred millions to the tax-burdened peoples of this country come up for consideration, shall advocate the interests of the road whose money in the shape of retainers or fees he has in his pocket, keeping the fact concealed, professing all of the time that he is acting and arguing in the interests of the United States?" The bill failed, of course, to become a law.

On the plea that the railroad was in poor financial condition, the receivers cut the wages of the railroad's employees. These workers knew that they were being thus assessed to recoup the treasury of the railroad for a part of the immense sums robbed by financiers; however, they made no official complaint. But when a second curtailment of wages from fifteen to thirty per cent. was announced, the workers decided that they would not tolerate having to suffer for the depleted condition of the railroad's treasury.

On numerous occasions, in the history of various railroads, the practice had been common of compelling the workers to make good whatever portion of the sums stolen by the magnates they could be mulcted for by a reduction of wages. Yet there was not a single law to protect them, nor was there a judge, who, knowing and considering the circumstances, issued a writ preventing the reduction of wages. The law and all officialdom allowed the magnates to keep their booty. Whether the railroad went into bankruptcy or not, the law in no case restrained the magnates from reducing wages in order to make up the deficiency caused by their own thefts.

But the judiciary were quick enough to stretch the law illegally to forbid the workers going on strike. When the Northern Pacific's workers asked for a conference with the receivers, the latter assented. Clandestinely, however, attorneys for the receivers were drawing up a sweeping judicial injunction, which was presented to Judge Jenkins, of the United States Circuit Court, and signed by him, on the very eve of the arranged conference. The chief attorney in the authorship of this injunction and in applying for its enforcement was Senator Spooner. The injunction prohibited the men "from combining or conspiring to quit, with or without

notice." It was followed by a supplementary injunction forbidding the workers from "ordering, recommending, approving or advising others to quit the service of the receivers."

The whole proceeding was so glaringly illegal, that the Judiciary Committee of the House of Representatives was forced to investigate it. This committee reported that the injunction was in violation of a constitutional provision, an abuse of judicial power and without authority of law; that Jenkins' conduct was "an oppressive exercise of the powers of his court, and an invasion of the rights of American citizens."<sup>46</sup> Aside from this denunciation, no punitive action was taken against Jenkins, Spooner, the receivers or any other of the inculpated. Meanwhile the injunction had done its expected service in terrorizing the workers and crippling the effectiveness of their strike.

Villard's control of the Northern Pacific was overthrown by a combination of opposing capitalists,<sup>47</sup> and

<sup>46</sup> House Report No. 1049, June 8, 1894, Second Session, Fifty-third Congress. During all of this time John S. Kennedy, "the great philanthropist," was one of the largest stockholders in this railroad.

<sup>47</sup> Villard bought the New York *Evening Post*; and his methods, upon the acquirement of that newspaper, constituted both an exception and a strong contrast to the methods invariably applied by other capitalists when they purchased newspaper properties. He divested himself of all authority over that newspaper's editorial policy, by transferring to three trustees the absolute control in that respect. At no time did he use the *Evening Post* to influence Wall Street operations; in fact, he did not dictate a single line of its editorials. On the other hand, the editors at times frankly criticised his policy in railroad affairs.

It may be added that (to the author's personal knowledge) the New York *Evening Post*, has consistently refused to be influenced in its editorial expressions by either the offer or withdrawal of department-store, financial and other advertising. It has maintained this course, despite very heavy losses resulting from the withdrawal of such advertising.

Hill gradually began to figure as the dominant owner. It is pertinent to note here that it was alleged that Maginnis was secretly in the employ of Hill's Great Northern Railroad at the very time he was warring upon the Northern Pacific.

The great contest between Hill and Harriman in 1901, for the control of the Northern Pacific Railroad has already been described in one of the chapters on J. Pierpont Morgan; the result thus far has been (as hitherto related) that the Hill interests remain in control of the Northern Pacific Railroad, as well as the Great Northern Railroad and the Chicago, Burlington and Quincy.

According to Charles Edward Russell, who made a very careful study of the successive stock waterings of the Great Northern Railroad, Hill, Kennedy, Lord Mount Stephen, Lord Strathcona and other magnates have drawn a total of \$407,000,000 profit from the manipulation of stock of the Great Northern. Russell says that this sum is entirely exclusive of all dividends interest and other emoluments. These, of themselves, have reached enormous sums.<sup>48</sup> A committee appointed by the Minnesota State Senate, in 1907, to investigate the capitalization of railroads in Minnesota, reported that these railroads were capitalized at about \$400,000,000, or about \$50,000 a mile, whereas the actual capitalization, on an average cost of \$27,000 a mile, should be \$215,000,000. The Great Northern Railroad, owning 2,040 miles of road in Minnesota, was heavily overcapitalized, the committee reported. The committee declared that the Great Northern had been making an annual profit of sixteen and a half per cent, estimated on a valuation of cost of construction and maintainance of \$33,000 per

<sup>48</sup> "The Heart of the Railroad Problem," "Hampton's Magazine," May, 1909.

mile.<sup>49</sup> The Northern Pacific likewise largely overcapitalized, had been deriving, it reported, an annual profit of twelve and a half per cent. on an estimated valuation of \$35,000 per mile.<sup>50</sup>

One of Hill's recent stockjobbing transactions resulted in a suit in which he was accused of gross fraud. On July 22, 1907, complaint was filed in the county court at St. Paul by Clarence A. Venner, a stockholder, alleging that on November 1, 1900, Hill, as president of the Great Northern Railroad and others of the officers and directors, had entered into a scheme to obtain, in conjunction with the Northern Pacific Railroad, a controlling interest in the Chicago, Burlington and Quincy Railroad. The complaint averred that on April 23, 1901, Hill was authorized by the Board of Directors to make the purchase of the Burlington at \$200 a share, which he did before January 1, 1902, in conjunction with the Northern Pacific, for the purpose of which joint collateral trust funds were issued by the two railroads.

The complaint further alleged that Hill, knowing of the plan to purchase the Burlington by the stockholders of the two roads, in violation of his duty as an officer and director of the Great Northern, "honestly, diligently and faithfully and carefully to administer the affairs of the said Great Northern, for its best interests, conceived and entered into certain illegal, wrongful and fraudulent plans and designs to make a large profit for himself personally, and at the expense and to the loss and damage of the Great Northern, by personally purchasing and causing to be purchased and held for him subject to his control, a large amount of the capital stock of the Chi-

<sup>49</sup> Report of the Committee of the State Senate of Minnesota Appointed for the Purpose of Investigating the Value and Cost of Operation of the Railroads of the State of Minnesota: 14.

<sup>50</sup> *Ibid.*

cago, Burlington and Quincy Railway Company, which was acquired at prices far in advance of those paid by him for the stock by the Great Northern and Northern Pacific Railway companies."

Venner also alleged in his complaint that Hill acquired a personal profit out of the transaction of an amount exceeding \$10,000,000 for which he asked an accounting. We are unable to ascertain Hill's answer or the result of this suit.<sup>51</sup>

Let it not be supposed, however, that the record of Hill's cumulative acts, as revealed in successive law and other records, has interfered in the slightest with his exalted reputation. Far and wide his sycophants of the press do still loudly spread their fanciful, rapturous descriptions of him, always carefully leaving unsaid the true means by which he obtained his great wealth. Much has been made of his piety; his giving, for instance, \$500,000 for the endowment of a Roman Catholic Cathedral, at St. Paul; much is incessantly written of his exceeding probity, his "financial acumen" and "business virtues." When he speaks he is hailed as a veritable oracle, and truly so, for the gods of present society are the Money Gods; Society, which at huge expense has built jails and prisons for the petty criminal,

<sup>51</sup> With great frequency, charges have been made that railroad attorneys throughout the United States often write the decisions of judges in cases affecting railroads. Many such specific scandals have lately come to light. Only recently the Grand Jury, of Spokane, Washington, brought indictments for embezzlement against Judge M. J. Gordon, former western counsel of the Great Northern Railroad. The Grand Jury, at the same time, denounced Hill and other Great Northern Railroad officials in attempting to hamper its work, and prevent the indictment of Gordon, and it further censured Judge Milo A. Root for permitting Gordon, while attorney for the Great Northern Railroad, to write an opinion in a case in which the railroad was concerned. This opinion Judge Root submitted as his own.

erects palaces for the great criminals, and insists upon pouring wealth increasingly into their coffers and hails them dictators. And who can blame the magnates for thus mocking and scourging the peoples who thus reverence them and the system which produces and perpetuates them? For, not they, but the system, should be held responsible.

Comprehensive Conclusions would be premature here; there still remains to be told the narrative of how Edward H. Harriman, and above all, the Standard Oil Company, for whom it is believed he so largely acted, possessed themselves of vast railroad systems. The Standard Oil oligarchy is, indeed, the mightiest railroad owner of all; many of those railroads the inception and development of which have been here told, are owned or controlled by it; to it has accrued the final benefits of much of that series of original frauds and thefts some picture of which has been given in this work. But the scope of this volume does not here permit of the extended narrative of Harriman's career, with its accompaniments of enormous frauds and salutary constructive work; nor, more so, does it allow the prolonged description of how the Standard Oil Company, starting with a few oil refineries, contrived to secure possession of so large a share of the resources of the United States, railroads and otherwise. This narrative will have to be deferred to later volumes, as also the story of the great fortunes based upon public franchises, mines and industries.

Meanwhile, some few observations may be properly pertinent and instructive.

The inevitable burden of this work, as is too painfully obvious, has been the frauds and thefts by what is known as property has been acquired, and great for-

tunes built up. This is not so because the author, in the perverseness of his heart has formulated it so, but because these are the inescapable facts. But why, query certain querulous critics, schooled in sycophantic standards, "enlarge upon the dark side of the picture? Had not all of these men their good points, their kindly streaks, their capacity for some doing of service for their fellow men?"

Such misguided critics, with your obtrusive narrow conceptions and warped mentality, it is ye who so blindly refuse to perceive, and do justice. What, may it be inquired, would your comment been had this work, instead of laying bare the frauds, shams and robberies by which immense fortunes have been amassed, been an artful or (for the matter of that) an *unartful* eulogy of those men, and an apotheosis of the system creating them? What, indeed, would you have said? Indubitably this work would have been highly "rational and unbiased"; no accusations of "prejudicial treatment" would have occurred. Conventional publishers would have eagerly grasped for it;<sup>52</sup> and to the author encouragement and money returns would have been assured. As it is (what is really of no interest to anyone but himself) he has had to undertake it in the face of the greatest obstacles—a fact perhaps tending to demonstrate that he who proclaims stern truth in stern garb must do it for its own sake, and with an utter defiance of all supine or mercenary powers that would seek to change his plan or hold him back.

Then there are those piping critics, overwhelmed by the proofs, who, as a last resort exclaim: "Is it pos-

<sup>52</sup> On this point the author speaks advisedly. The letters that he holds from some of the foremost publishers in the United States would, if published, make exceedingly and typically significant reading.

sible that your facts are correct? Do you not exaggerate?" To all such not remonstration nor censure but pity should be extended: deep pity for their hemmed-in mental horizon. And, after all, they are only reflections, or rather products, of a certain prevalent standard of the day which *prima facie* condemns the man with the poor appearance as guilty of all the offenses charged, but resolutely declines to impute serious crime to him of wealth and corresponding superior station, regardless of how much the proofs multiply. Much could be written upon the efficacy of a high silk hat as a protection of person and reputation.

When the author's "History of Tammany Hall" appeared, its accuracy was not questioned, because, perforce, the facts *were* accurate, and the story there told was that of a vulgar political organization. How singular it is, remarks one perceptive commentator, that some of those who so highly acclaimed that work for its comprehensiveness and accuracy, should be the very critics who now insinuate their doubts as to the accuracy of facts when applied to the founders of great fortunes and their very respectable descendants. No, sage reviewer, it is by no means singular; that attitude is transparent; the truer in this case the facts are and the more voluminous and indisputable the citations from official records, the more the apologists and retainers of wealth are driven back to their only possible defence. They can do nothing but suggest meaningless doubts—doubts so abundantly refuted by the formidable mass of citations throughout this work. And be it known that the frauds and robberies herein described, great and continuous as they have been, are far from being the complete story; further volumes remain to be written; and for every one fraudulent transaction accidentally coming to public

notice, scores of such transactions have unquestionably gone down into the sewers of time, unvisited by a ray of daylight.

This, it is unnecessary to say, is palpably no history of personal traits, dispositions or temperaments; it is a narrative of the means whereby properties have been acquired, and great fortunes possessed. But the academician, strong in the audacity of his soporific mediocrity, may say, "This is no history; it lacks dispassionate style." If "dispassionate style" consists of a dull string of dates, names and phrases, with no glimpses of the roots of matters, nor a clear interpretation of causes and events, then this work does certainly want "dispassionate style," and well it is that this defect is there. Who, indeed, does not know that there is no more effective medium for inventing, telling and perpetuating falsehoods than this same so-called "dispassionate style"? A heightening and an emphasis of certain tissues of fact, a slighting concealment of other facts, and behold! the trick is done.

While on this point, it will be pardonable on the part of the author (considering his many earnest years of original research) to express his unbounded amazement that so many pretentious volumes, theoretical and otherwise, have been turned out by college professors on this subject, without their having taken the slightest trouble to ascertain the facts. Fine-spun dogmatic theory, most of it is, or distorted high-sounding assumptions; words, words, no end of turgid words: no really original work on thought, no insight, no interpretation except a pseudo, illegitimate one arrived at without a knowledge of the facts, and so curiously in accord with the dictates of the ruling wealth of the time. This particular history, be it said, is written from a distinct point of view, narrating

facts never hitherto brought out, and the accuracy of which cannot be challenged; the point of view, as the author believes, is the correct one, verified by every accumulating proof.

Finally, there are those who rush forward to press this question: "Have not the founders and perpetuators of the great fortunes had their good qualities?" The question is arrant superfluity; so they have had and have. But do the good people who are so solicitous on this score ever think of making the same interrogatory as to the hundreds of thousands of slum dwellers, or of the 50,000 (or so) convicts in the United States? Is any consideration or extenuation demanded for *them*? For the poor, the wretched, the degraded everywhere? And yet the crimes for which petty malefactors are punished are not a thousandfold as criminal as those committed by the founders and holders of wealth; even solitary murder lapses far into insignificance compared to the never-ending catalogue of the mass of indirect murders brought about by the greed for profit and wealth.

All, all, capitalist and slum dweller, convict and multi-millionaire are creatures of the system thus causing greed and vice, poverty and crime — horrid factors produced by no intrinsic fault in human nature, but by the impetus, provocations and results of that system. All, all have infinite capacity for good, were it but given favorable environment to develop; the wonder can be expressed that under such a blighting system so much good does exist. And those magnates who, in their pomp and vainglory, think that they rule forces, are (blind creatures!) only the instruments of forces. Behind all of this tumult, this rushing and trampling lies a slow-working Purpose, moving forward with a definite symmetry which those who will can clearly see. Despite their

avarice, their corruption and fraud, these magnates unconsciously have been doing their great necessary work in these times—the very vital work of crushing out hindrances so that all industries shall become centralized, in order that at the proper day the whole people shall collectively step into their ownership and operation, and artificial classes, with all of their attendant hideous evils, injustices and oppressions, be forever abolished.

END OF VOL. III

NOTE.—It is the author's plan, at a future date, to describe the acquiring of railroads by Harriman and the Standard Oil Company, and to deal with great fortunes based upon the public franchises, mines and industries.

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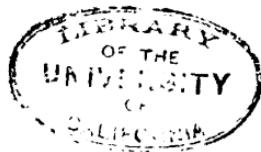
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